

August 05, 2019

## TMF Holdings Limited: Long-term rating downgraded to [ICRA]AA-(negative); short-term ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Lines Programme	300.00	300.00	[ICRA]AA-(negative); downgraded from [ICRA]AA(negative)
Non-Convertible Debenture Programme	1,250.00	1,250.00	[ICRA]AA-(negative); downgraded from [ICRA]AA(negative)
Commercial Paper Programme	2,500.00	2,500.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>4,050.00</b>	<b>4,050.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA's ratings for TMF Holdings Limited (TMFHL) are based on its strong parentage, with Tata Motors Limited (TML, rated at [ICRA]AA-(negative)/ [ICRA]A1+) holding 100% stake and the demonstrated support from the parent in the form of equity infusion, management support and systems. The revision in long-term ratings for TMFHL follows the revision in the long-term ratings of TML to [ICRA]AA-(negative) from [ICRA]AA(negative). 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. TMFL and TMFSL, together referred to as TMF Group. While arriving at the ratings, ICRA has considered the consolidated performance of TMFHL and its subsidiaries (Tata Motors Finance Solutions Limited (TMFSL) and Tata Motors Finance Limited (TMFL)) given the strong operational and financial synergies between the companies. ICRA expects TML to continue to support TMFHL to enable it to maintain a prudent capital structure, while maintaining its majority ownership. The ratings are, however, tempered by the TMFHL Group's concentration on TML vehicles, and its moderate delinquencies.

### Outlook: Negative

The rating for TMFHL draws significant strength from its ultimate parent Tata Motors Limited. The outlook may be revised to 'Stable' if there is any change in TML's credit profile and hence the likelihood of support to TMFHL. Also, the ability of the Group to grow the loan book while maintaining the asset quality and solvency indicators will remain a key rating sensitivity.

### Key rating drivers

### Credit strengths

**Strategic importance to TML and demonstrated support from parent in the form of regular capital infusion** – ICRA's ratings for TMFHL are based on its strong parentage, with TML holding a 100% stake and the demonstrated support from the parent in the form of equity infusion, management support and systems. 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., TMFL (formerly Sheba Properties Limited) and TMFSL, together referred to as the TMFHL Group. ICRA expects TML to continue to support TMFHL to enable it to maintain a prudent capital structure, while maintaining its majority ownership. In March 2018, TML had infused Rs 300 crore of equity capital in TMFHL by way of a rights issue. Rs. 600 crore equity capital infused in TMFHL in FY2019 by way of rights issue by TML. Further, Rs. 150 crore capital infused by TML during FY2020.

**Good capitalisation and financial flexibility by virtue of being a part of TML Group** –As on March 31, 2019, TMFHL had a good standalone net worth of Rs. 4,214 crore with a capital adequacy ratio (adjusted net worth/ risk weighted assets) of 62.20%, which is significantly above the regulatory requirements of 30% for a core investment company (CIC). The company also had a comfortable leverage ratio of 0.67 times as on March 31, 2019, against the regulatory cap of 2.5 times for a CIC. Being a part of the Tata Group, the company enjoys considerable financial flexibility in raising long term funding at competitive rates. However, given the growth plans and moderate internal capital generation on consolidated basis, the group would need external capital to maintain prudent capitalisation levels for both subsidiaries, especially TMFL. Nevertheless, given the strategic importance of the group to TML, ICRA expects capital support from the ultimate parent to be forthcoming to keep the group companies adequately capitalised. As on March 31, 2019, the company's standalone borrowing profile was a mix of long-term borrowings (33%) and commercial paper (67%). The Company has adequate ICD limits from subsidiaries and TML to bridge short term mismatches in cash flows.

**Assured business volumes on account of TML's established market position; well-established branch and distribution network** - TML continues to have a leading position in the commercial vehicles (CV) market 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 business with new model launches and in-house development of engines will lead to assured business volumes for the TMFHL Group. As on March 31, 2019, the consolidated portfolio of the group stood at Rs. 35,175 crore consisting of new vehicle financing (84%), used vehicle financing (9%) and channel financing (7%).

## Credit challenges

**Ability to improve earnings profile of the operating companies** – Being a holding company, TMFHL's income is dependent on the interest income earned on the loans to group companies and the dividend income from the subsidiaries. Over the last couple of years, the performance of the subsidiaries has been muted owing to a slowdown in business growth and asset quality related challenges, which lead to higher credit costs and hence lower profitability. However, there has been improvement in the performance of the subsidiaries in FY2019. During FY2019, TMFHL reported a consolidated net profit of Rs. 164 crore on a total income of Rs. 3,975 crore as compared with net profit of Rs. 76 crore on a total income of Rs. 2,878 crore during FY2018. The Return on average assets (RoA) and Return on Equity (RoE) stood at 0.47% and 9.92% respectively during FY2019 as per Ind-AS Going forward, it would be imperative for the operating companies to grow the business volumes profitably while maintaining control over the asset quality in order to improve the earnings profile of the Group.

**Moderate asset quality indicators; improvement in delinquency** –TMFHL's asset quality indicators on a consolidated basis improved with consolidated gross and net NPAs of 2.60 % and 1.38% respectively as on March 31, 2019 compared to 4.0% and 2.7% respectively as on March 31, 2018. ICRA takes note of the management's initiatives to augment its underwriting processes and recovery efforts, to ensure better credit selection in subsidiaries. Going forward, the company's ability to manage its asset quality and improve its earnings would remain a key rating sensitivity.

## Liquidity Position:

The liquidity profile of TMFHL is adequate on standalone basis. The asset liability maturity profile of TMFHL as at March 31, 2019 reflects negative cumulative mismatches across over 2 months and less than 1 year buckets. As at March 31, 2019, total outflows, over the next six months stood at ~Rs. 1,883 crore, while inflows were ~Rs. 1,660 crore including available limits. However, the liquidity of the company is supported by ICD limits from TMFL and TMFSL to meet the funding gaps and future funding requirements. Also, ICRA expects the support from TML to be forthcoming as and when required.

## Analytical Approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Ultimate Parent/Investor: Tata Motors Limited TMFHL'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:

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 FY2019, TMFHL (standalone) reported PAT of Rs. 4 crore on an asset base of Rs. 7,100 crore as against a net loss of Rs. 26 crore on an asset base of Rs. 6,699 crore in FY2018 as per Ind-AS.

During FY2019, TMFHL (consolidated) reported a PAT of Rs. 164 crore on an asset base of Rs. 40,540 crore as against a PAT of Rs. 76 crore on an asset base of Rs. 28,971 crore in FY2018 as per Ind-AS.

### 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.

For FY2019, TML (standalone) reported a PAT of Rs. 2,021 crore on an asset base of Rs. 60,910 crore, against a net loss of Rs. 1,035 crore on an asset base of Rs. 59,212 crore for FY2018.

For FY2019, TML (consolidated) reported net loss of Rs. 28,724 crore on an asset base of Rs. 307,194 crore against PAT of Rs. 9,091 crore on an asset base of Rs. 331,350 crore for FY2018.

### Key financial indicators(Audited) – TMF Holdings Limited (as per Ind-AS)

	Consolidated		Standalone	
	FY2018	FY2019	FY2018	FY2019
Net Operating Income	1,327.6	1,022.5	-9.8	22.6
PAT	76.3	164.0	-26.0	3.7
Net worth	1,300.3	2,006	3,673.9	4,213.8
Total Assets	28,971.0	40,540.5	6,698.8	7,100.1
Gross NPA%	4.0%	2.6%	-	-
ANW(CRAR)	-	-	57.20%	62.20%
Leverage ratio*	-	-	0.72	0.67
Return on average Assets	NA	0.47%	NA	0.05%
Return on average Net Worth	NA	9.92%	NA	0.09%

\*Leverage ratio=Outside liabilities/Adjusted Net worth (ANW)

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 (FY2020)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Aug 2019	FY2020	FY2019		FY2018		FY2017	
						Feb 2019	Oct 2018	May 2018	Dec 2017	Jul 2017	Feb 2017	Jun 2016
1	Long Term Fund Based - CC	Long Term	5	0	[ICRA] AA- (negative)	[ICRA] AA (negative)	[ICRA] AA (stable)	[ICRA] AA (positive)	[ICRA] AA (positive)	[ICRA] AA (positive)	-	-
2	Long Term Fund Based – Term Loan*	Long Term	250	0	[ICRA] AA- (negative)	[ICRA] AA (negative)	[ICRA] AA (stable)	[ICRA] AA (positive)	[ICRA] AA (positive)	[ICRA] AA (positive)	-	-
3	Long Term Fund Based – unallocated*	Long Term	45	0	[ICRA] AA- (negative)	[ICRA] AA (negative)	[ICRA] AA (stable)	[ICRA] AA (positive)	[ICRA] AA (positive)	[ICRA] AA (positive)	-	-
4	Non-Convertible Debenture Programme	Long Term	1,250	0	[ICRA] AA- (negative)	[ICRA] AA (negative)	[ICRA] AA (stable)	[ICRA] AA (positive)	[ICRA] AA (positive)	[ICRA] AA (positive)	-	-
5	Commercial Paper Programme	Short Term	2,500	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

\*As on June 30, 2019, term loan has been repaid, unallocated long-term fund-based lines stood at Rs. 295 crore.

### 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](http://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
NA	Commercial Paper Programme	-	-	7-365 days	2,500	[ICRA]A1+
NA	Non-convertible debentures*	-	-	-	1,250	[ICRA]AA-(negative)
NA	Long Term Fund Based – CC	-	-	-	5	[ICRA]AA-(negative)
NA	Long Term Fund Based – Term Loan**	Feb 2018	-	March 2019	250	[ICRA]AA-(negative)
NA	Long Term Fund Based – unallocated**	-	-	-	45	[ICRA]AA-(negative)

\*Unutilised

\*\*As on June 30, 2019, term loan has been repaid, unallocated long-term fund-based lines stood at Rs. 295 crore.

Source: Company

### Annexure-2: List of entities considered for consolidated analysis:

Tata Motors Finance Limited  
Tata Motors Finance Solutions Limited  
TMF Holdings Limited

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