TMF Holdings Limited (Formerly Tata Motors Finance Limited)

March 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	300.00	CARE AA+; Stable / CARE A1+	Revised from CARE AA; Stable / CARE A1+
Non Convertible Debentures	1,250.00	CARE AA+; Stable	Revised from CARE AA; Stable
Commercial Paper	2,500.00	CARE A1+	Reaffirmed

Rationale and key rating drivers

The revision in the ratings assigned to the long-term debt instruments and bank facilities of TMF Holdings Limited (TMFHL), follows a similar revision in the ratings assigned to the parent company i.e., Tata Motors Ltd (TML) given its robust business performance during 9MFY24 as reflected from its significant growth across various segments and geographies. Higher volumes and improved realization across the segments have also led to substantial improvement in its profitability which is expected to continue for FY24. Short-term rating assigned to the commercial paper (CP) and bank facilities has been re-affirmed.

Despite the recently announced demerger plan of TML to segregate its commercial vehicle (CV) and passenger vehicle (PV) businesses in to two separately listed companies, CARE Ratings expects the significant de-leveraging to be reflected in both these companies. Furthermore, the strong business profile of its CV and PV segments are expected to support the credit profile of the two independent companies as well.

The ratings continues to factors in the parentage of TML and the strategic importance of TMFHL for the parent being the holding company of the captive finance arm of TML, the strong operational linkages and the demonstrated capital and management support as well as shared brand name.

The ratings continue to consider adequate capitalisation at consolidated levels along with the well-diversified resource profile, supported by the group's strong resource-raising ability. The ratings, however, continue to remain constrained due to the moderate albeit improving asset quality and the moderate profitability parameters.

The continued support from the parent (TML) and the improvement in the asset quality, profitability and capitalisation parameters continue to be the key rating sensitivities. The ratings of TMFHL draw significant strength from the ratings of TML. Any change in the credit profile, resulting in a rating change of TML, will necessitate a similar rating action on the ratings of TMFHL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Upward revision in the rating of the parent entity-TML.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative factors

- Any negative rating action on the parent entity-TML
- Deterioration in the consolidated asset quality parameters on a sustained basis
- Significant deterioration in the overall profitability and business profile from the existing levels

Analytical approach:

Since TMFBSL and TMFL are subsidiaries of TMFHL, CARE Ratings has taken a consolidated approach for assigning the ratings. Furthermore, TMFHL's ratings derive significant support from the company's parentage of TML. (Refer Annexure-6)

Outlook: Stable

The stable outlook reflects expectation of sustenance of its operational and financial position with improving profitability along with comfortable capitalisation levels.

Detailed description of the key rating drivers:

Key strengths

Strong parentage and strategically important subsidiary for the parent

TMFHL is a TATA Group company and is a wholly-owned subsidiary of TML (rated 'CARE AA+; Stable'). TML is the largest automobile manufacturer in Asia as well as the largest commercial vehicle (CV) manufacturer in India. It has a well-diversified product portfolio consisting of presence in both, CV and passenger vehicle (PV) segments in India.

TMFHL is critical to TML for achieving their growth projections and in creating demand in newer markets. Post the scheme of arrangement, TMFL is the captive financier for TML's vehicle and, during FY23 around 17% of TML's total CV sales was funded by TMFBSL (before arrangement). Also, the used vehicle financing segment will be critical in expanding into newer business areas. The new business segment under TMFBSL of operating lease will help to diversify the business operations of TMF Group as a whole from financing to leasing. However, the company is at a nascent stage of operations and hence its criticality to the group's business will be a key monitorable.

Furthermore, the Tata group has shared its brand with TMFL and TMFBSL and therefore, continued financial, operational and management support from TML is expected and is a key rating sensitivity.

TML has been supporting TMFHL by way of equity infusion to in turn support the business and capital requirement of TMFL and TMFBSL. In the last two years, TMFHL has raised perpetual debt worth ₹1,800 crore where TML has written a 'Put' option to purchase the debentures from the debenture holder at the respective exercise dates. In FY23, compulsorily convertible preference shares (CCPS) worth ₹371 crore was converted into equity which was 100% held by TML. Also, TMFHL has ₹1,000 crore of credit line available from TML in the form of ICDs. During FY21 and FY22, there was no equity infusion by TMFHL in any of its subsidiaries. However, during FY23, TMFHL subscribed to the rights issue by TMFL and infused funds worth ₹700 crore to support its capital needs.

Strong management and board of directors

The company's board of directors consist of eminent personalities, viz., Nasser Munjee, N. V. Sivakumar, Varsha Purandare, P.B. Balaji, Dhiman Gupta and Samrat Gupta. Naseer Munjee was appointed as an Independent Director designated as Chairman of the company. He has played an instrumental role in setting up institutions like HDFC and IDFC in the past. N.

V. Sivakumar was appointed as an Independent Director and had been with PwC for over 40 years within the Advisory and Audit Service lines, working across multiple PwC offices in India, Middle East and the UK and serving a diverse set of domestic and international clients. Varsha Purandare- Independent Director, has varied experience of 36 years in the areas of Credit, Forex, Risk, Treasury, Capital Markets, Investment Banking and Private Equity. She was the Managing Director and Chief Executive Officer of SBI Capital Markets Limited ("SBI Caps") from November 2015 up to December 2018. Besides the above, she has held several positions in SBI, in India and abroad. P. B. Balaji is the Group CFO of TML. Dhiman Gupta -Non-Executive Director, has over 15 years of experience in corporate finance and Mergers and Acquisitions (M&A) across various industry verticals. Samrat Gupta appointed as Non-Executive Director, has over 20 years of experience in the Tata Group companies and other MNCs. He is carrying rich experience in Finance, Sales and Corporate restructuring.

Adequate capitalization levels

On a consolidated level, the gearing of the company stood at 7.69 times as on March 31, 2023 as against the gearing of 6.94 times as on March 31, 2022 since the net-worth got hit due to losses during FY23. Post the implementation of scheme of arrangement, TMFL reported a CRAR of 22.05% as on December 31, 2023.

On a standalone basis, TMFHL reported adjusted net worth ratio of 41.69% as on March 31, 2023 (as on March 31, 2022: 55.24%), against minimum regulatory requirement of 30% for a Core Investment Company (CIC). The standalone leverage ratio (reported) stood at 1.46 times as on March 31, 2023 against regulatory cap of 2.5x.
Furthermore, comfort is drawn from the parent group, which has been providing capital and liquidity support to TMHFL and its subsidiaries.

Diversified funding profile

As on March 31, 2023, on a consolidated basis, TMFHL's funding profile is well diversified with resources being raised from various avenues like banks, debt instruments and commercial paper (CP). The group also raises funds through direct assignments (DA) and during FY23, funds worth ₹4,163 crore were raised. Within term loans, the borrowings are well diversified across numerous lenders including an ECB borrowing of USD 200 Mn which the company raised in 2024.

Key weaknesses

Moderate albeit improving asset quality metrics

As on March 31, 2023, the gross non-performing assets (GNPA) on a consolidated basis stood at 9.26% (net NPA: 5.02%), as against the gross NPA of 9.66% (net NPA: 5.75%) as on March 31, 2022. This marginal improvement was on account of improved collections coupled with write-offs. Earlier, the major deterioration of the asset quality was due to lower collections in period of the pandemic. Along with this, the new Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRACP) norms on NPA recognition and upgradation issued by the Reserve Bank of India (RBI) on November 12, 2021 added to increased delinquencies. Post the implementation of scheme of arrangement, the Gross NPA and Net NPA stood at 7.18% and 3.95%, respectively, as on December 31, 2023, as against March 31, 2023, the gross non-performing assets (GNPA) on a consolidated basis stood at 9.26% (net NPA: 5.02%).

Given the product and customer segment that the company operates in as well as the historical asset quality trend, the company's ability to improve the same will remain a key monitorable.

Moderate profitability parameters

On a consolidated, the company reported loss of ₹1,013 crore during FY23 as against the profit of ₹156 crore, on account of increase in credit cost from ₹1,278 crore in FY22 to ₹2,039 crore in FY23. This was mainly due to write-offs of ₹2,032 crore (net of recoveries). As a result return on average total assets (ROTA) stood at -2.29% in FY23 as against 0.34% in FY22. The total income stood similar with marginal growth to ₹5,057 crore in FY23. Going ahead, the profitability for FY24 is expected to improve from current levels given that the credit cost expected to improve coupled with better margins.
Also on a standalone level, TMFHL reported loss of ₹62.28 crore in FY23 as against the profit of ₹53.62 crore in FY22. Further in 9MFY24, TMFHL reported a loss of Rs. 79 crores.

Liquidity: Strong

As on December 31, 2023, the company had cash and liquid investments of ₹268 crore and ICD from TML of ₹1,000 crore as against debt repayments of ₹640 crore for next three months. Being part of the Tata group, the company has the financial flexibility to mobilise the funds to meet any liquidity requirements. TMFHL, being a subsidiary of TML, is expected to receive support from the parent on a continuous basis and be able to mobilise funds to meet any liquidity requirements.

Applicable criteria

Definition of Default
Investment Holding Companies
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation
Short term instruments
Non-Banking Financial Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Investment Company

TMFHL

TMFHL, an erstwhile asset finance company and a systemically important non-banking financial company, is a wholly-owned subsidiary of TML (rated 'CARE AA; Stable'). The company is registered as a core investment company (CIC) with the RBI vide the certificate of registration dated October 11, 2017. The CIC acts as a holding company of two of its subsidiaries i.,e TMFL and TMFBSL.

TML

Incorporated in 1945, TML is one of the leading automotive manufacturers in India. Essentially a CV manufacturer, TML forayed into the manufacturing of passenger vehicles across all product segments, viz, compact, mid-size, and utility in 1998-99, broadening the business horizon of the company. TML forayed into the premium luxury car segment through the acquisition of JLR in June 2008, which has a presence across various geographies such as Europe, the US, China, Russia, and Brazil. Through its subsidiaries and associates, TML also has a presence in Thailand, South Africa, South Korea, and Indonesia. The company's manufacturing base in India is spread across Jamshedpur (Jharkhand), Pune (Maharashtra), Lucknow (Uttar Pradesh), Pantnagar (Uttarakhand), Sanand (Gujarat), and Dharwad (Karnataka). In addition, JLR has three manufacturing units and two product development centres in the UK.

CARE Ratings has noted the recent announcement of demerger by TML of its operations into two separate listed companies' commercial vehicles and passenger vehicles, subject to NCLT and shareholder approvals which is likely to be completed over 12-15 months. Post demerger, TML will continue to hold the CV business which enjoys a strong market share of close to 40% in CV industry and is likely to be net auto debt free by March 2024 driven by the strong cashflow generation. Furthermore, PV business will house the existing domestic PV, JLR and EV which is expected to continue its growth trajectory and deleveraging plan and expected to be net debt free in FY25. CARE Ratings expects that despite the de-merger, both PV and CV businesses will continue its growth trajectory while maintaining their respective strong market position and improving their cashflow generation to maintain a deleveraged balance sheet. Both CV and PV businesses post the demerger are expected to maintain net auto debt/PBILDT lower than 0.5x inline with the deleveraging plans, which is expected to support their independent credit profiles.

TMFL (erstwhile TMFSL)

TMFL is a wholly owned subsidiary of TMFHL, which in turn, is a wholly owned subsidiary of TML (rated 'CARE AA; Stable'). In the meeting held on October 03, 2022, the board of directors of TMFL and TMFSL had approved a scheme of arrangement between the two companies in relation to an internal re-alignment of its business involving de-merger of TMFBSL's non-banking finance business undertaking into TMFL. The said scheme of arrangement is completed and became effective from June 30, 2023. It will continue with the used vehicle financing business, corporate lending business and also carry on the captive financing business for TML vehicles.

TMFBSL (erstwhile TMFL)

TMFBSL is a majority-owned subsidiary of TMFHL. Post the new scheme of arrangement approved by board of directors on October 03, 2022, and approval by NCLT on May 12, 2023, TMFBSL's NBFC business was transferred to TMFL and TMFBSL conducts its business operation under the operating lease business segment. This company will support the financing arm of the group.

Brief Financials (₹ crore)	Standalone		
	FY22 (A)	FY23 (A)	9MFY24(UA)
Total income	315	199	139
PAT	54	-62	-79
Total assets (net of intangible and deferred tax assets)	8,307	9,408	8,651
ROTA (%)	0.66	-0.70	-1.16

A: Audited; Note: 'the above results are latest financial results available'

Brief Financials of TMFHL (₹ crore)	Consolidated	
	FY22 (A)	FY23 (A)
Total income	4,984	5,057
PAT	156	-1,013
Total assets (net of intangible and deferred tax assets)	45,671	42,707
ROTA (%)	0.34	-2.29

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-bank facilities	-	-	-	-	5.00	CARE AA+; Stable / CARE A1+
Fund-based - LT/ ST-bank facilities (Proposed)	-	-	-	-	295.00	CARE AA+; Stable / CARE A1+
Debentures-Non-convertible debentures – Proposed	-	-	-	-	1,250.00	CARE AA+; Stable
Commercial Paper	INE909H14PD4	08-Mar-23	8.65%	07-Mar-24	150	CARE A1+
Commercial Paper	INE909H14PE2	10-Mar-23	8.65%	08-Mar-24	50	CARE A1+
Commercial Paper	INE909H14PE2	13-Mar-23	8.65%	08-Mar-24	50	CARE A1+
Commercial Paper	INE909H14PF9	14-Mar-23	8.65%	12-Mar-24	50	CARE A1+
Commercial Paper	INE909H14PH5	15-Mar-23	8.65%	14-Mar-24	100	CARE A1+
Commercial Paper	INE909H14PM5	28-Feb-24	8.50%	27-May-24	350	CARE A1+
Commercial Paper	INE909H14PL7	28-Feb-24	8.50%	28-May-24	300	CARE A1+
Commercial Paper (Proposed)	-	-	-	-	1,450	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial Paper-Commercial Paper (Standalone)	ST	2500.00	CARE A1+	1)CARE A1+ (30-Jun-23) 2)CARE A1+ (27-Jun-23)	1)CARE A1+ (06-Sep-22)	1)CARE A1+ (07-Sep-21)	1)CARE A1+ (31-Mar-21) 2)CARE A1+ (16-Jul-20)
2	Debentures-Non Convertible Debentures	LT	1250.00	CARE AA+; Stable	1)CARE AA; Stable (30-Jun-23) 2)CARE AA; Stable (27-Jun-23)	1)CARE AA-; Stable (06-Sep-22)	1)CARE AA-; Stable (07-Sep-21)	1)CARE AA-; Stable (31-Mar-21) 2)CARE AA-; Negative (16-Jul-20)
3	Fund-based-LT/ST	LT/ST	300.00	CARE AA+; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (30-Jun-23) 2)CARE AA; Stable / CARE A1+ (27-Jun-23)	1)CARE AA-; Stable / CARE A1+ (06-Sep-22)	1)CARE AA-; Stable / CARE A1+ (07-Sep-21)	1)CARE AA-; Stable / CARE A1+ (31-Mar-21) 2)CARE AA-; Negative / CARE A1+ (16-Jul-20)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Tata Motors Finance Ltd	Full	Subsidiary
2	TMF Business Services Ltd	Proportionate	Subsidiary

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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