

Rating Rationale

May 19, 2023 | Mumbai

TMF Holdings Limited

Long-term rating upgraded to 'CRISIL AA/Stable'; short-term rating reaffirmed

Rating Action

Rs.2225 Crore Non Convertible Debentures	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Stable')
Rs.1250 Crore Non Convertible Debentures	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Stable')
Rs.195 Crore Perpetual Bonds	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Stable')
Rs.305 Crore Perpetual Bonds	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Stable')
Rs.1300 Crore Perpetual Bonds	CRISIL AA/Stable (Upgraded from 'CRISIL AA-/Stable')
Rs.2500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the non-convertible debentures and perpetual bonds of TMF Holdings Limited (TMFHL) to '**CRISIL AA/Stable**' from '**CRISIL AA-/Stable**'. The rating on commercial paper has been reaffirmed at CRISIL A1+.

The rating action is line with the similar action on the ultimate parent Tata Motors Limited (TML; CRISIL AA/Stable/CRISIL A1+). The ratings continue to reflect the expectation of strong support from the ultimate parent TML to TMFHL and its subsidiaries: Tata Motors Finance Solutions Limited (TMFSL; 'CRISIL AA/CRISIL A+/Stable/CRISIL A1+') and Tata Motors Finance Limited (TMFL; 'CRISIL AA/CRISIL A+/Stable/CRISIL A1+'). The ratings also factor in the group's strong position in the commercial vehicle (CV) finance segment. However, these strengths are partially offset by moderate, albeit improving, asset quality of the portfolio.

CRISIL Ratings notes that on October 3, 2022, the board of TMFL had approved a scheme of arrangement between TMFL and TMFSL wherein as a part of the internal alignment of business, the NBFC business of TMFL will be de-merged into TMFSL on a going concern basis subject to regulatory approvals. Post the de-merger, TMFHL will continue to hold TMFSL, which will subsequently be renamed to TMFL. The demerger will be a plain share swap, and the outstanding assets and liabilities pertaining to NBFC business will be transferred to TMFSL from TMFL. TMFL subsequently, will be left with the operating lease business.

The transaction is expected to be complete in the near term, subject to necessary regulatory approvals. Post the arrangement, there will not be any change in the shareholding and interlinkages between the group and the ultimate parent, TML.

For arriving at the ratings, CRISIL Ratings combines the business and financial risk profiles of TMFHL and its subsidiaries, TMFL and TMFSL, given the integration of operations and commonality of management, together referred to as the TMF Group. Consequently, the proposed transaction will not impact the credit risk profile of the group.

TMFHL is a non-banking financial company core investment company (NBFC-CIC/CIC). RBI's Master Direction - Core Investment Companies (Reserve Bank) Directions 2016 (CIC Directions^[1]) prescribes that adjusted net worth of a CIC shall at no point of time be less than 30% of its aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items as on the date of the last audited balance sheet as at the end of the financial year. Also, CIC Directions require that the outside liabilities of a CIC shall at no point of time exceed 2.5 times its adjusted net worth as on the date of the last audited balance sheet as at the end of the financial year.

With respect to perpetual debt instruments to be issued by a CIC, there are no specific regulations issued by RBI unlike that for a NBFC. Therefore, in order to analyse the critical aspects of this issuance, CRISIL Ratings has analysed the term sheet in order to ascertain the differences between the perpetual and other debt instruments of the company. The key difference between normal debt and perpetual debt for TMFHL are the lock-in features which allow coupon deferability if:

1. The ratio of its adjusted net worth to its aggregate risk weighted assets ("ANW Ratio") is below the minimum regulatory requirement under the CIC Directions; or the impact of such payment results in its ANW Ratio falling below or remaining below the minimum regulatory requirement prescribed under the CIC Directions;
2. In the event that making of any Coupon payment by the Issuer may result in net loss or increase the net loss of the Issuer, the making of such of Coupon payment by the Issuer shall be subject to the prior approval of such governmental authority/ regulator, if applicable and such payment shall be made subject to such terms and conditions as may be prescribed by such authority/regulator

TMFHL cannot consider the perpetual debt as part of Network for the purpose of ANW Ratio prescribed as per CIC Directions, while it would be considered as part of Total Outside Liabilities for the purpose of Leverage Ratio. The adjusted network to risk weighted assets (ANW ratio) of TMF Holdings Limited is expected to be above 50% on steady state basis. CRISIL Ratings notes that the same was lower at about 42% as on March 31, 2023, owing to Group Lending in TMFHL.

With respect to the condition on net loss, there are no regulations currently applicable and hence this clause is not applicable as on date. Additionally, in the current term sheet, there is a coupon discretion clause. The clause provides that the payment of any coupon in respect of the perpetual bonds may be cancelled or suspended at the discretion of the Board of Directors of TMFHL. CRISIL Ratings

does not expect TMFHL to exercise this discretion as it would have a direct bearing on the other debt instruments of the company and the TMFHL group's ability to raise future borrowings in the market.

Further, the proposed bond issuance has an additional layer of comfort for investors with an option provider clause linked to parent, TML. If the investors decide to exercise the put option at pre-defined dates, there is an obligation on TML to purchase the perpetual bonds from the investor. However, from a rating perspective, the exercise of option only results in change of the holder of bonds from existing investor to TML and would not result in redemption/ extinguishment of the Bonds.

Any change in regulations or guidelines governing perpetual debt instruments which may have an adverse impact on the instrument features and will be a rating sensitivity factor.

^[1] "CIC Directions" shall mean the Master Direction - Core Investment Companies (Reserve Bank) Directions 2016 issued by the Reserve Bank of India, as the same may be amended, modified and replaced from time to time.

Analytical Approach

CRISIL Ratings' credit rating on the debt instruments and bank facilities of TMFHL group continue to be based on the expectation of strong support from TML. This is because of TMFHL group's strategic importance to TML, being the captive financing arm. CRISIL Ratings has also combined the business and financial risk profiles of TMFHL and its subsidiaries, TMFL and TMFSL, given the integration of operations and commonality of management.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

High strategic importance to and expectation of strong support from TML

The ratings on the debt instruments of TMFHL group are based upon the expectation of strong support from the ultimate parent TML. This is because of the high strategic importance of TMFHL group to its parent, being the captive financing arm.

CRISIL Ratings notes that on October 3, 2022, the board of TMFL had approved a scheme of arrangement between TMFL and TMFSL wherein as a part of the internal alignment of business, the NBFC business of TMFL will be de-merged into TMFSL on a going concern basis subject to regulatory approvals. Post the de-merger, TMFHL will continue to hold TMFSL, which will subsequently be renamed to TMFL. The demerger will be a plain share swap, and the outstanding assets and liabilities pertaining to NBFC business will be transferred to TMFSL from TMFL. TMFL subsequently, will be left with the operating lease business.

The transaction is expected to be complete in the near term, subject to necessary regulatory approvals. Post the arrangement, there will not be any change in the shareholding and interlinkages between the group and the ultimate parent, TML.

For arriving at the ratings, CRISIL Ratings combines the business and financial risk profiles of TMFHL and its subsidiaries, TMFL and TMFSL, given the integration of operations and commonality of management, together referred to as the TMF Group. Consequently, the proposed transaction will not impact the credit risk profile of the group.

In the past, TML has been infusing equity capital into TMFHL (including in its earlier form as TMFL, the operating company) at regular intervals. TML infused Rs 300 crore in fiscal 2018, Rs 600 crore in fiscal 2019 and Rs 150 crore in fiscal 2020. CRISIL Ratings believes TML will continue to provide similar support through TMFHL, enabling the companies to maintain their capital adequacy above the minimum requirement.

Consequently, TMFHL infused Rs 300 crore of equity into TMFL and subscribed to Rs 370 crore of Compulsorily Convertible Preference Shares issued by TMFL and Rs 150 crore of subordinated debt issued by TMFL in fiscal 2019. Furthermore, in the first quarter of fiscal 2020, TMFHL infused Rs 150 crore of equity and subscribed to Rs 300 crore of subordinated debt in TMFL. Further, in August 2022, TMFHL infused Rs. 300 crore of equity and in February 2023, TMFHL infused Rs. 400 crore of equity in TMFL to shore up its equity base.

The total capital ratio of TMFL was comfortable at 24.0% as on March 31, 2023 (18.7% as on March 31, 2022). While the total capital ratio of TMFSL stood at 23.2% as on March 31, 2023 (20.4% as on March 31, 2022). CRISIL Ratings believes TMFL and TMFSL will continue to receive need-based support from TML through TMFHL, to maintain their capital adequacy above the minimum requirement.

TMFHL and its subsidiaries have a high level of managerial and operational integration, where the parent extends management support through representation of its senior management on the boards of TMFL and TMFSL. CRISIL Ratings believes TML will continue to have majority ownership in TMFL through the holding company structure. This, along with operational integration and a shared brand name, makes TML morally obligated to support TMFHL group.

Leading position in CV finance

TMF group is a leading vehicle financier in India. TMFL is among the top five CV financiers with assets under management (AUM) of Rs 30,294 crores as on March 31, 2023 (Rs. 34,993 crore as on March 31, 2022). As on March 31, 2023 TMFSL had a standalone portfolio of Rs 11,020 crore (Rs. 9141 crore as on March 31, 2022). Consolidated AUM as on March 31, 2023 stands at Rs 41,314 crore (March 31, 2022: Rs 44,134 crore).

Weakness:

Weak asset quality

The asset quality metrics for TMF group were impacted owing to implementation of IRACP norms from October 2022 onwards, however in fourth quarter of fiscal 2023, the asset quality metrics have improved amidst continued strong collections and write offs. The reported gross NPA and net NPA for the TMF Group stood at 9.26% and 5.02% respectively as on March 31, 2023 (9.66% and 5.75% respectively as on March 31, 2022). The gross NPA and net NPA for TMFSL on a standalone basis stood at 4.08% and 2.82% respectively as on March 31, 2023 (7.38% and 4.94% respectively as on March 31, 2022). For TMFL the reported gross NPA and net NPA increased to 11.28% and 5.91% respectively as on March 31, 2023 (10.31% and 5.98% respectively as on March 31, 2022).

The company NNPA stood below 6% as on March 31, 2023. Further, in the fourth quarter of fiscal 2023, the collection efficiency remained above 97% for both TMFL and TMFSL. Nevertheless, given the segment company is catering to, going forward company's ability to manage its asset quality is a key monitorable. CRISIL Ratings understands that the group is committed to bringing in

additional equity capital to provide cushion against the asset side risk and maintain consolidated Net NPA and capitalisation metrics well within the regulatory thresholds. The overall rating continues to factor in expectation of timely financial and capital support from TML in case of any exigency.

Liquidity: Strong

CRISIL Ratings' analysis of TMFHL's asset liability maturity (ALM) profile shows cumulative positive mismatches up to 1 year maturity buckets as on March 31, 2023. On a consolidated basis, as on March 31, 2023, the group had repayments of Rs 5,414 crore for the three months till June 2023 (of which Rs 1,320 crore of CC/WCDL limits are expected to be rolled over). Against the same, the group has the consolidated liquidity position which is supported by combined cash and liquid investments of Rs. 4639 crore and unutilised bank lines of Rs.4488 (excluding cc/WCDL rollover) crore. TMFHL also has unutilised ICD lines of Rs 1,000 crore from TML on March 31, 2023. This excludes G Sec and T Bill Investments of Rs. 1225 crore kept for LCR requirements.

Outlook: Stable

The rating outlook on TMFHL is closely linked to the rating outlook on TML. CRISIL Ratings believes TMF Group will be strategically important to TML, being captive financiers, and will benefit from the financial and management support extended by TML. CRISIL Ratings will continue to closely monitor any development that can significantly alter the extent of support by TML. Changes in the rating outlook or ratings on TML may lead to similar changes in the rating outlook or ratings on TMF Group.

Rating Sensitivity Factors

Upward factors:

- Changes in the rating outlook or ratings on TML by 1 notch or higher may lead to similar changes in the rating outlook or ratings on TMF Group

Downward factors:

- Downgrade in the rating of TML by 1 notch or higher
- Any change in the support philosophy of TML, resulting in reduced support to the TMFHL group
- Sharp deterioration in the consolidated asset quality, impacting the profitability and capital level of the TMFHL group

About the Company

In March 2016, TMFHL acquired 100% stake in TMFL (earlier Sheba Properties Ltd), a non-banking finance company registered with RBI, for Rs 405 crore from TML. As on March 31, 2016, TMFL had total assets of Rs 205 crore, of which the investment portfolio constituted 94% of the assets or Rs 193 crore.

With the implementation of the scheme of arrangement effective January 2017, the entire new vehicle finance business has been transferred from TMFHL to TMFL. Post transfer, TMFL is a non-deposit taking, systemically important, non-banking financial and asset financing company and will be one of the major financiers of CVs and cars for TML's customers and channel partners. In fiscal 2023, the company on the consolidated basis reported net loss of Rs 1013 crore on total income (net of interest expenses) of Rs 2173 crore, as against a net profit of Rs 156 crore and total income (net of interest expenses) of Rs 2265 crore in fiscal 2022.

Key Financial Indicators (TMF Holdings Limited -standalone)

As on /for the year ended	Unit	March 31 ,2023	March 31, 2022	March 31, 2021
Total assets	Rs crore	9408	8307	8,001
Total income	Rs crore	199	315	158
Profit after tax (PAT)	Rs crore	-62	54	-110
ANW / Risk Weighted Assets	%	41.7	55.2	52.9

Key Financial Indicators (TMF Holdings Limited - Consolidated)

As on /for the year ended	Unit	March 31, 2023	March 31, 2022
Total assets	Rs crore	43,082	46,083
Total income	Rs crore	5057	4984
Profit after tax (PAT)	Rs crore	-1013	156
Gross NPA	%	9.3	9.7
Net NPA	%	5.0	5.8

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the Instrument	Date of Allotment	Coupon rate (%)	Maturity Date	Amount (Rs.Crore)	Complexity Levels	Rating assigned with Outlook
INE909H08394	Perpetual Bonds	23-Jun-21	7.3029%	Perpetual	200	Highly Complex	CRISIL AA/Stable
INE909H08386	Perpetual Bonds	10-Jun-21	7.2962%	Perpetual	250	Highly Complex	CRISIL AA/Stable
INE909H08378	Perpetual Bonds	10-Mar-21	7.9926%	Perpetual	100	Highly Complex	CRISIL AA/Stable
INE909H08360	Perpetual Bonds	10-Mar-21	7.9944%	Perpetual	100	Highly Complex	CRISIL AA/Stable

INE909H08352	Perpetual Bonds	10-Mar-21	7.9947%	Perpetual	150	Highly Complex	CRISIL AA/Stable
INE909H08329	Perpetual Bonds	30-Dec-20	7.7499%	Perpetual	100	Highly Complex	CRISIL AA/Stable
INE909H08337	Perpetual Bonds	30-Dec-20	7.7505%	Perpetual	150	Highly Complex	CRISIL AA/Stable
INE909H08345	Perpetual Bonds	30-Dec-20	7.7475%	Perpetual	100	Highly Complex	CRISIL AA/Stable
INE909H08311	Perpetual Bonds	30-Dec-20	7.7541%	Perpetual	150	Highly Complex	CRISIL AA/Stable
INE909H08303	Perpetual Bonds	18-Aug-20	8.7551%	Perpetual	305	Highly Complex	CRISIL AA/Stable
INE909H08295	Perpetual Bonds	11-Aug-20	8.7551%	Perpetual	195	Highly Complex	CRISIL AA/Stable
INE909H08402	Non-Convertible Debentures	14-Oct-21	Zero Interest	14-10-2024	165	Simple	CRISIL AA/Stable
INE909H08410	Non-Convertible Debentures	18-Nov-21	3M TBILL LINKED	18-11-2024	300	Simple	CRISIL AA/Stable
INE909H08428	Non-Convertible Debentures	30-Nov-21	3M TBILL LINKED	30-12-2024	300	Simple	CRISIL AA/Stable
NA	Non-Convertible Debentures*	NA	NA	NA	485	Simple	CRISIL AA/Stable
INE909H08436	Non-Convertible Debentures	25-Feb-22	Zero Interest	24-Feb-25	100	Simple	CRISIL AA/Stable
INE909H08444	Non-Convertible Debentures	25-Feb-22	7.7	25-Feb-25	600	Simple	CRISIL AA/Stable
INE909H08451	Non-Convertible Debentures	22-Mar-22	Zero Interest	26-Sep-25	300	Simple	CRISIL AA/Stable
INE909H08469	Non-Convertible Debentures	30-Aug-22	Zero Interest	28-Aug-26	600	Simple	CRISIL AA/Stable
NA	Non-Convertible Debentures*	NA	NA	NA	625	Simple	CRISIL AA/Stable
NA	Commercial Paper*	NA	NA	7-365 days	2500	Simple	CRISIL A1+

*Rated but unutilized

For Perpetual Debt, maturity date is call option date

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Tata Motors Finance Limited	Full	Subsidiary
Tata Motors Finance Solutions Limited	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	2500.0	CRISIL A1+	14-02-23	CRISIL A1+	12-10-22	CRISIL A1+	16-03-21	CRISIL A1+	25-10-20	CRISIL A1+	CRISIL A1+
			--		--	17-02-22	CRISIL A1+		--	13-08-20	CRISIL A1+	--
			--		--		--		--	06-08-20	CRISIL A1+	--
			--		--		--		--	28-04-20	CRISIL A1+	--
Non Convertible Debentures	LT	3475.0	CRISIL AA/Stable	14-02-23	CRISIL AA-/Stable	12-10-22	CRISIL AA-/Stable	16-03-21	CRISIL AA-/Stable	25-10-20	CRISIL AA-/Negative	CRISIL AA-/Negative
			--		--	17-02-22	CRISIL AA-/Stable		--	13-08-20	CRISIL AA-/Negative	--
			--		--		--		--	06-08-20	CRISIL AA-/Negative	--
			--		--		--		--	28-04-20	CRISIL AA-/Negative	--
Perpetual Bonds	LT	1800.0	CRISIL AA/Stable	14-02-23	CRISIL AA-/Stable	12-10-22	CRISIL AA-/Stable	16-03-21	CRISIL AA-/Stable	25-10-20	CRISIL AA-/Negative	--
			--		--	17-02-22	CRISIL AA-/Stable		--	13-08-20	CRISIL AA-/Negative, Provisional CRISIL AA-/Negative	--
			--		--		--		--	06-08-20	Provisional CRISIL AA-/Negative, CRISIL AA-/Negative	--
			--		--		--		--	28-04-20	Provisional CRISIL AA-/Negative	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

[Rating Criteria for Banks and Financial Institutions](#)
[Rating Criteria for Finance Companies](#)
[CRISILs Criteria for rating short term debt](#)
[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)
[CRISILs Criteria for Consolidation](#)
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Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com	Krishnan Sitaraman Senior Director and Deputy Chief Ratings Officer CRISIL Ratings Limited D: +91 22 3342 8070 krishnan.sitaraman@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com	Ajit Velonie Senior Director CRISIL Ratings Limited D: +91 22 4097 8209 ajit.velonie@crisil.com	
Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Shaunak Samirbhai Shah Rating Analyst CRISIL Ratings Limited B: +91 22 3342 3000 Shaunak.Shah@crisil.com	

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