

March 06, 2023

TMF Holdings Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	1,725.00	1,725.00	[ICRA]AA- (Positive); reaffirmed; outlook revised to 'Positive' from 'Stable'
Long-term – fund-based bank facilities	300.00	300.00	[ICRA]AA- (Positive); reaffirmed; outlook revised to 'Positive' from 'Stable'
Commercial paper programme	2,500.00	2,500.00	[ICRA]A1+; reaffirmed
Total	4,525.00	4,525.00	

*Instrument details are provided in Annexure I

Rationale

While arriving at the ratings, ICRA has considered the consolidated performance of TMF Holdings limited (TMFHL) and its subsidiaries (i.e., Tata Motors Finance Limited (TMFL) and Tata Motors Finance Solutions Limited (TMFSL), together referred to as the TMF Group), given the strong operational and financial synergies between the companies.

ICRA's ratings for the TMF Group derive significant support from its ultimate parentage in the form of Tata Motors Limited (TML; rated [ICRA]AA- (Positive)/[ICRA]A1+). ICRA believes that the TMF Group is strategically important to TML as the Group financed ~19% of TML's commercial vehicle (CV) sales in 9M FY2023. The revision in outlook follows the revision in outlook for the long-term ratings of TML to Positive from Stable. The Group's ratings are 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 its board. Further, the Group's operations benefit from its leadership position in financing TML's vehicles, the strong board oversight, and a shared brand name. The shared brand name also supports the Group's financial flexibility, and the consolidated liquidity position is supported by adequate cash and liquid investments and unutilised bank lines available at TMFL and TMFSL.

ICRA notes that the Group's asset quality is weak with consolidated gross NPA of 12.01% and net NPA of 7.75% as on December 31, 2022, largely on account of slippages from the Covid-restructured book. The asset quality which had started improving since Q2FY2023 with the improvement in macroeconomic conditions and the reorientation & strengthening of the collection teams, deteriorated in Q3FY2023 on account of aligning with the RBI-IRACP norms, effective October 1, 2022, and higher slippage from the restructured book. In this regard, ICRA believes that the Group has reoriented the collections effort to improve recoveries and would also look at higher provisioning and write-offs to reduce the NNPA to avoid RBI's Prompt Corrective Action (PCA) by March 2023. This in turn would require fresh capital to support its capitalisation. ICRA notes that TMFHL has infused Rs. 400 crore in TMFL in February 2023. Nevertheless, given the stress in the restructured loan book, a weak capital profile and losses in 9M FY2023, there could be need to raise further capital. Overall, a significant change in TMFHL's shareholding pattern or a change in the expectation of support from TML or a deterioration in TML's credit profile could warrant a rating change for the TMF Group. Also, the quantum and timeliness of support from TML to the Group would be a key monitorable.

ICRA has also taken note of the proposed demerger of TMFL's non-banking financial company (NBFC) business undertaking into TMFSL. Post the demerger, TMFHL will continue to hold a 100% stake in TMFSL. The scheme is being undertaken with the objective of consolidating the non-banking financial businesses of the Group under TMFSL with a view to achieve optimal and efficient utilisation of capital and enhance operational and management efficiency. The demerger will be a plain share swap and the outstanding assets and liabilities pertaining to the NBFC business will be transferred to TMFSL from TMFL. Also, the

proposed arrangement will not impact the shareholding and interlinkages between the Group and its ultimate parent, TML. The Group has received approval from the Reserve Bank of India (RBI) and the scheme is now filed with the National Company Law Tribunal (NCLT). It will become effective post final order of the NCLT and filing the NCLT order with the Registrar of Companies (ROC).

Key rating drivers and their description

Credit strengths

Strategic importance to TML and demonstrated support from parent in the form of regular capital infusions – ICRA's ratings for the TMF Group derive significant support from its ultimate parentage in the form of TML. The TMF Group's ratings are strongly linked to the stated intention of continued support from TML, which, in the past, has included access to capital, management and systems, and supervision by a strong board. ICRA derives comfort from the company being strategically important to its parent as a captive financier of TML's vehicles (TMFL financed ~19% of TML's CV sales in 9MFY2023). ICRA expects TML to provide support to the TMF Group to enable it to maintain a prudent capital structure, while maintaining full ownership. ICRA expects support from the parent to be forthcoming to enable the Group to maintain prudent capitalisation levels.

Assured business volumes on account of TML's established market position; well-established branch and distribution network – As a captive financing arm of TML, the TMF Group enjoys strong linkages and has relationships with the dealer network and the preferred financier for most of its dealer network. TML continues to have a leading market position in CVs in India, supported by its strong and diversified portfolio, high brand equity and well-entrenched market reach. ICRA takes note of TML's stated intent to support the TMF Group and to continue maintaining full ownership of the Group. As on December 31, 2022, the Group's consolidated assets under management (AUM) stood at Rs. 43,410 crore consisting of new vehicle financing (72%), used vehicle financing (19%) and corporate lending business (CLG; 9%).

As on December 31, 2022, TMFL and TMFSL had a standalone AUM of Rs. 32,301 crore and Rs. 11,107 crore, respectively.

Diverse borrowing profile – The company enjoys good financial flexibility and has access to long-term funding by virtue of being a part of the TML Group, with access to funds at competitive rates of interest. As on December 31, 2022, the aggregate funding mix (TMFL+TMFSL+TMFHL) comprised long-term market debt (23%), bank borrowings (64%), commercial paper (12%), and securitisation (1%). The consolidated liquidity profile is adequate, supported by unutilised bank lines to bridge short-term mismatches in the cash flows.

Credit challenges

Weak but improving asset quality indicators – TMF Group's asset quality indicators, on a consolidated basis, remain weak with GNPA/NNPA of 12.01%/7.75% and 9.66%/5.75% as on December 31, 2022, and March 31, 2022, respectively, compared to 5.23%/3.79% as on March 31, 2021. Its asset quality had started deteriorating in Q1 FY2022 with consolidated GNPA/NNPA of 12.96%/10.10%, as on June 30, 2021, due to lower collections on account of the adverse impact of the pandemic on the cash flows of the underlying borrowers. While the asset quality had started improving since Q2FY2023 with the improvement in macroeconomic conditions and the reorientation and strengthening of the collection teams and write-offs, it was impacted in Q3FY2023 on account of aligning of definition of stage-3 assets with IRACP norms, effective October 1, 2022, and higher slippage from restructured book, which stood at Rs. 4,028 crore as on December 31, 2022. While the Group has already taken some hit in 9M FY2023, there would be incremental credit costs on account of these as the company would need to bring down the net NPA to below 6% by end of March 2023 in order to stay out of the Prompt corrective Action (PCA) framework for Non-Banking Financial Companies (NBFCs) which came into effect from October 1, 2022. Thus, the Group's ability to manage recoveries or mitigate losses through the enforcement of security, while arresting fresh slippages and thus keeping a check on the credit costs, will have a bearing on its overall earnings profile.

The GNPA/NNPA for TMFL and TMFSL on a standalone basis were 13.99%/9.04% and 6.67%/4.34%, respectively, on December 31, 2022, and 10.31%/5.98% and 7.38%/4.94%, respectively, on March 31, 2022.

Weak consolidated capitalisation profile - On a consolidated basis, the Group's overall gearing stood at 15.5 times (reported gearing 6.5¹ times) on March 31, 2022, compared to 16.2 times (reported gearing 8.1²) as on March 31, 2021, owing to the decline in consolidated debt and increase in the net worth on the retention of profit. On a standalone basis, TMFHL's net worth stood at Rs. 3,895 crore (excluding perpetual debt, which is considered as equity as per Ind AS) as on December 31, 2022, with a capital adequacy ratio (adjusted net worth/risk-weighted assets) of 45.88%, which is significantly above the regulatory requirement of 30% for a core investment company (CIC). The company also had a comfortable standalone leverage ratio of 1.2 times, as on December 31, 2022, against the regulatory cap of 2.5 times for a CIC. Further, ICRA draws comfort from the parentage, providing capital and liquidity support to TMFHL and its subsidiaries. ICRA also notes that with the expectation of subdued profitability in Q4 FY2023, the consolidated capitalisation profile of the group is expected to weaken. In this regard, given the Group's strategic importance to TML and its stated intent to support the Group, ICRA expects capital support from the ultimate parent to be forthcoming and in a timely manner to support the capitalization and hence, credit profile of the Group companies

Subdued profitability indicators – Lower net interest margins (NIMs), increased credit cost due to higher slippages and write-offs from the restructured book, and steady operating expenses led to a deterioration in the return on assets (RoA) and return on equity (RoE) to 0.34% and 5.88%³, respectively, in FY2022 from 0.64% and 11.10%⁴, respectively, in FY2021. The profitability indicators were further impacted in 9M FY2023 by elevated credit costs, largely on account of significant write-offs in the restructured book. Profitability is expected to remain subdued over the medium term, given the likelihood of elevated credit costs in Q4 FY2023 as well with incremental slippages coming from the restructured portfolio and the Group's endeavour to maintain the consolidated net non-performing advances (NPAs) below 6% on annual basis. Incrementally, it would be imperative for the operating companies to grow their business volumes while maintaining control over slippages.

While TMFSL reported a net profit of Rs. 65 crore in 9M FY2023, TMFL and TMFHL reported a net loss of Rs. 580 crore and Rs. 21 crore, respectively, on a standalone basis.

Concentration risk– Being a captive financier, a large proportion of TMFL's loan book is towards TML's vehicle. Consequently, TMFL has a high reliance on TML's sales velocity to generate business volumes thus expanding its loan book.

Liquidity position: Adequate

TMFHL's liquidity profile is adequate on a consolidated basis. As on January 31, 2023, total consolidated (TMFHL+TMFL+TMFSL) debt outflows, over the next three months, stood at ~Rs. 6,416 crore. Out of this, CC/WCDL of Rs. 995 crore and commercial paper are expected to be rolled over, given the good financial flexibility by virtue of being a part of the TML Group. The consolidated liquidity position is supported by the combined cash and liquid investments of ~Rs. 3,965 crore, unutilised bank lines of ~Rs. 5,458 crore. Moreover, TMFHL had unutilised inter-corporate deposit (ICD) lines of Rs. 1,000 crore from TML as on January 31, 2023, to meet funding gaps and future funding requirements. Apart from these, the company has Investments of Rs. 1,560 crore of G-sec/T-bill as High-quality liquid assets (HQLA) kept for Liquidity coverage ratio (LCR) requirements.

¹ Rs. 3,248-crore perpetual debt classified as equity as per Ind AS. However, ICRA considers perpetual debt as borrowing. Net worth and gearing (incl. perpetual debt as equity) stood at Rs. 5,958 crore and 6.5 times, respectively, on March 31, 2022

² Rs. 2,313-crore perpetual debt classified as equity as per Ind AS. However, ICRA considers perpetual debt as borrowing. Net worth and gearing (incl. perpetual debt as equity) stood at Rs. 4,921 crore and 8.1 times, respectively, on March 31, 2021

³ Rs. 3,248-crore perpetual debt classified as equity as per Ind AS. However, ICRA considers perpetual debt as borrowing. RoE (incl. perpetual debt as equity) stood at 2.88% on March 31, 2022

⁴ Rs. 2,313-crore perpetual debt classified as equity as per Ind AS. However, ICRA considers perpetual debt as borrowing. RoE (incl. perpetual debt as equity) stood at 7.26% on March 31, 2021

Rating sensitivities

Positive factors – TMFHL’s ratings are underpinned by its strategic importance to TML as the captive financier of its vehicles. A significant improvement in TML’s credit profile could warrant a rating upgrade.

Negative factors – TMFHL’s ratings are underpinned by its strategic importance to TML as the captive financier of its vehicles. A significant change in the shareholding pattern of TMFHL or a change in the expectation of support from TML or a deterioration in TML’s credit profile could warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA’s credit rating methodology for non-banking finance companies Rating approach - Implicit support from parent or group
Parent/Group support	Ultimate Parent/Investor: Tata Motors Limited TMF Group’s ratings are 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	While arriving at the ratings, ICRA has considered the consolidated performance of TMFHL and its subsidiaries (TMFL and TMFSL), given the strong operational and financial synergies between the companies. <i>Details mentioned in Annexure II.</i>

About the company

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 the used vehicle financing business is housed under TMFSL.

In FY2022, TMFHL (consolidated) reported a PAT of Rs. 156 crore on an asset base of Rs. 46,083 crore against a PAT of Rs. 269 crore on an asset base of Rs. 45,864 crore in FY2021.

In FY2022, TMFHL (standalone) reported a PAT of Rs. 54 crore on an asset base of Rs. 8,307 crore against a net loss of Rs. 110 crore on an asset base of Rs. 8,001 crore in FY2021. In 9M FY2023, the company, on standalone basis, reported a net loss of Rs. 21 crore on an asset base of Rs. 8,722 crore.

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 three manufacturers of PVs in India. In the domestic CV industry, TML has one of the most diversified product portfolios with a presence 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 JLR from Ford Motor Company for \$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 generated ~80% of its consolidated turnover in FY2021, 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 providing IT solutions to the automotive industry), Tata Daewoo Commercial Vehicles Company Limited (CV operations in South Korea) and

TML Drivelines Limited (captive auto component manufacturer). The company also operates joint ventures (JVs) with 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 commenced manufacturing operations at Slovakia. In FY2013, JLR also formed a 50-50 JV with the Chinese firm, 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 globe through its subsidiaries and JVs.

Key financial indicators (audited)

TMF Holdings Limited (standalone)	FY2020	FY2021	FY2022	9M FY2023
	Ind AS	Ind AS	Ind AS	Ind AS
Total income	298	158	315	156
PAT	11	-110	54	-21
Net worth	4,309	4,127^	4,031^	3,895^
Total assets	6,938	8,001	8,307	8,722
ANW (CRAR)	64.47%	52.91%	55.24%	45.88%
Leverage ratio*	0.6	0.92	1.1	1.24
Return on average assets	0.15%	-1.47%	0.66%	-0.31%
Return on average net worth	0.25%	-2.61%	1.31%	-0.71%

*Leverage ratio=Outside liabilities/Adjusted net worth (ANW); Amount in Rs. crore

^ Excluding perpetual debt; perpetual debt is classified as equity as per Ind AS. However, ICRA classifies it as borrowing

Source: Company, ICRA Research; All ratios as per ICRA's calculations

TMF Holdings Limited (consolidated)	FY2020	FY2021	FY2022
	Ind AS	Ind AS	Ind AS
Total income	4,671	4,882	4,984
PAT	139	269	156
Net worth	2,241	2,608^	2,710^
Loan book (AUM)	35,946	42,803	44,134
Total assets	37,947	45,864	46,083
Return on assets	0.36%	0.64%	0.34%
Return on equity	6.57%	11.10%	5.88%
Gearing (times)	15.6	16.2	15.5
Gross NPA	5.70%	5.23%	9.68%
Net NPA	4.90%	3.79%	5.76%

^Perpetual debt classified as equity as per Ind AS. However, ICRA classifies it as borrowing; Amount in Rs. crore

Source: Company, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		FY2023				Chronology of Rating History for the Past 3 Years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan-31-23 (Rs. crore)	Date and Rating			Date and Rating in FY2022	Date and Rating in FY2021		Date and Rating in FY2020	
					Mar-06- 23	Dec-30- 22	Oct-21- 22		Feb-15-22	Feb-16- 21	Aug-21-20	Oct-23-19
1	Long-term – fund-based bank facilities	Long term	300	0	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Negative)	[ICRA] AA- (Negative)	[ICRA] AA- (Negative)
2	Non-convertible debenture programme	Long term	1,725	0	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Negative)	[ICRA] AA- (Negative)	[ICRA] AA- (Negative)
3	Commercial paper programme	Short term	2,500	590	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

Source: Company, ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture	Very Simple
Commercial paper programme	Very Simple
Bank facilities	Very Simple

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 as on January 31, 2023

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE909H14OW7	Commercial paper programme	25-Aug-22	7.30%	24-Aug-23	125	[ICRA]A1+
INE909H14OX5	Commercial paper programme	2-Nov-22	8.19%	2-Nov-23	60	[ICRA]A1+
INE909H14OY3	Commercial paper programme	4-Nov-22	7.52%	3-Feb-23	300	[ICRA]A1+
INE909H14OZ0	Commercial paper programme	18-Nov-22	8.19%	15-Nov-23	82	[ICRA]A1+
INE909H14PA0	Commercial paper programme	12-Jan-23	8.22%	10-Jan-24	23	[ICRA]A1+
NA^	Commercial paper programme	-	-	7-365 days	1,910	[ICRA]A1+
NA^	Non-convertible debentures	-	-	-	1,725	[ICRA]AA- (Positive)
NA	Long-term bank facilities	NA	NA	NA	300	[ICRA]AA- (Positive)

Source: Company; ^Yet to be placed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
TMF Holdings Limited	Parent	Full consolidation
Tata Motors Finance Limited	Subsidiary	Full consolidation
Tata Motors Finance Solutions Limited	Subsidiary	Full consolidation

Source: Annual report FY2022

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