Ratings

CRISIL
An S&P Global Company

Rating Rationale

October 05, 2016 | Mumbai

Tata Motors Finance Limited

Rating outlook revised to 'Positive'; ratings reaffirmed

Total Bank Loan Facilities Rated	**Rs.206.60 Billion**
Long Term Rating[1]	**CRISIL AA/Positive (Outlook revised from 'Stable' and rating reaffirmed)**
Short Term Rating[1]	**CRISIL A1+ (Reaffirmed)**

(Refer to Annexure 1 for Facility-wise details)

Rs.30.00 Billion Non-Convertible Debentures[1]	**CRISIL AA/Positive (Outlook revised from 'Stable' and rating reaffirmed)**
Non-Convertible Debentures Aggregating Rs.50.00 Billion[1]	**CRISIL AA/Positive (Outlook revised from 'Stable' and rating reaffirmed)**
Subordinated Debt Programme Aggregating Rs.14.00 Billion[1]	**CRISIL AA/Positive (Outlook revised from 'Stable' and rating reaffirmed)**
Perpetual Bonds Aggregating Rs.4.15 Billion[1]	**CRISIL A+/Positive (Outlook revised from 'Stable' and rating reaffirmed)**
Rs.10 Billion Short-Term Debt[1]	**CRISIL A1+ (Reaffirmed)**

[1]The common independent director on the boards of CRISIL and Tata Motors Finance Ltd did not participate in the rating committee meeting and the rating process for these instruments.

CRISIL has revised its outlook on the long-term bank facilities and debt instruments of Tata Motors Finance Limited (TMFL) to **'Positive'** from 'Stable' and has reaffirmed its ratings on the debt instruments and bank facilities of TMFL at **'CRISIL AA/CRISIL A+/CRISIL A1+'**. The outlook revision follows a similar rating action on TMFL's parent, Tata Motors Ltd (TML; rated 'CRISIL AA/Positive/CRISIL A1+').

CRISIL's ratings on the debt instruments and bank facilities of TMFL continue to be centrally based on the expectation of strong support from TML. This is because of the high strategic importance of TMFL to TML and the latter's significant majority ownership in TMFL. The ratings on the perpetual bonds additionally take into account the deeply subordinated nature of these instruments whereby TMFL is restricted from servicing these instruments if it breaches the minimum regulatory capital requirement, or if the regulator denies permission to the company to make payments of interest and principal if it reports losses.

CRISIL had, on September 30, 2016, reaffirmed its ratings on TMFSL's bank facilities and debt instrument following the announcement of the scheme of arrangement approved by the board of TMFL. Under this scheme, the new vehicle financing business of TMFL will be transferred to Sheba Properties Ltd (Sheba; 100% subsidiary of TMFL which was acquired from TML in March 2016), while the dealer/vendor financing business will be transferred to TMFSL. Subsequently, TMFL will be reconstituted as a Core Investment Company (CIC) that will henceforth be the parent company of Sheba and TMFSL. The CIC will be responsible for granting loans and making investments into group companies. Post completion of the business transfers, the CIC's name will be changed to Tata Motors Finance Holdings Ltd (TMFHL) while Sheba will be renamed Tata Motors Finance Ltd to reflect strong association of the firm with the Tata Motors group. The scheme has been approved by TMFL's board and is subject to approval from High Court.

For arriving at its ratings on TMFL, CRISIL has combined the business and financial risk profiles of TMFL and its wholly owned subsidiary, Tata Motors Finance Solutions Ltd (TMFSL; rated 'CRISIL AA/Positive/CRISIL A1+'). The two companies primarily finance vehicles of TML and have significant business, operational, and management linkages with each other and with their ultimate parent, TML.

TMFL is the captive financer for TML's vehicles and hence receives significant business, financial, and managerial support from TML, given the strategic role it plays in strengthening the latter's automotive business in India. As on March 31, 2015, TMFL had transferred its existing manufacturer-guaranteed and pre-owned vehicle financing businesses to TMFSL on a slump-sale basis. Following the re-organisation, TMFL focuses on financing TML's new vehicles. TML has been infusing equity capital into TMFL at regular intervals; it infused Rs 11.5 billion from fiscal 2011 to March 31, 2016. CRISIL believes TML will continue to support TMFL's capitalisation, enabling the latter to maintain its capital adequacy ratio above the regulatory minimum. The two companies have a high level of managerial and operational integration, where the parent extends management support through representation of its senior management on TMFL's board. CRISIL believes TML will continue to have a significant majority ownership in TMFL. This, along with operational integration and a shared brand name, makes TML morally obligated to support TMFL.

TMFL is among India's top-five commercial vehicle (CV) financers. Its assets under management (AUM), on a standalone basis, aggregated Rs 165.2 billion as on March 31, 2016 (Rs 154.8 billion as on March 31, 2015), of which CV financing constituted around 81%. TMFL (on a standalone basis) had adjusted networth, and Tier-I and overall capital adequacy ratio of Rs 36 billion, 10.14%, and 16.07%, respectively, as on March 31, 2016 (Rs 31.7 billion, 11.57%, and 16.49%, respectively, as on March 31, 2015). Furthermore, in March 2016, TMFL issued compulsorily convertible preference shares of Rs 4.34 billion, to various external investors to shore up its capital position. TMFL's gross and net non-performing assets declined to 9.8% and 5.7%, respectively, as on March 31, 2016, from 15.79% and 10.87%, respectively, a year ago, as a result of the company's collections efforts. However, the asset quality continues to reflect the stress being faced by its borrowers (mainly first-time users of CVs). The company's return on managed assets ratio was 0.5% in fiscal 2016 (0.9% in fiscal 2015, including one-time capital gain on sale of business to TMFSL).

Outlook: Positive (for bank facilities and debt instruments other than perpetual debt)

The rating outlook on TMFL's debt instruments and bank facilities is closely linked to the rating outlook on TML. CRISIL believes TMFL will remain strategically important to TML and will continue to benefit from the financial and management support extended by TML. CRISIL 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 a similar change in the rating outlook or ratings on TMFL.

Outlook: Positive (for perpetual debt)

CRISIL believes TMFL will remain strategically important to TML and will continue to benefit from the financial and management support extended by the latter. The ratings may be upgraded or the outlook may be revised to 'Stable' in case of a similar action in the ratings on TML. The outlook may also be revised to 'Stable' if TMFL's asset quality significantly weakens, thereby adversely affecting its earnings profile, or if there is pressure on its capitalisation.

About the Company

TMFL, a non-deposit-taking, systemically important non-banking financial and asset finance company, is one of the major financers of CVs and cars for TML's customers and channel partners. It extends value-added products, combining financing offerings with insurance, channel finance, vendor financing, and other products. The company operates through direct and dealer models and is present at all main dealerships of TML across India. It had 245 branches across 25 states in India as on March 31, 2016.

For fiscal 2016, TMFL reported a profit after tax of Rs 0.96 billion on a total income (net of interest expenses) of Rs 10.7 billion, against a PAT of Rs 1.8 billion on a total income (net of interest expense) of Rs 9.7 billion for the previous fiscal.

Annexure 1 - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Billion)	Rating	Facility	Amount (Rs.Billion)	Rating
Bank Guarantee	7.100	CRISIL A1+	Bank Guarantee	7.100	CRISIL A1+
Cash Credit & Working Capital demand loan*@	40.480	CRISIL AA/Positive	Cash Credit & Working Capital demand loan*@	40.480	CRISIL AA/Stable
Long Term Bank Facility**	70.263	CRISIL AA/Positive	Long Term Bank Facility**	70.263	CRISIL AA/Stable
Proposed Bank Guarantee	5.750	CRISIL A1+	Proposed Bank Guarantee	5.750	CRISIL A1+
Proposed Cash Credit Limit#	6.800	CRISIL AA/Positive	Proposed Cash Credit Limit#	6.800	CRISIL AA/Stable
Proposed Long Term Bank Loan Facility	76.208	CRISIL AA/Positive	Proposed Long Term Bank Loan Facility	76.208	CRISIL AA/Stable
Total	206.600	--	Total	206.600	--

*Only cash credit facility, not interchangeable with working capital demand loan facility for the following: Andhra Bank Rs 1.0 billion, IDBI Bank Rs 100 million, and Syndicate Bank Rs 100 million
**For South Indian Bank- Rs 0.25 billion of term loan is interchangeable with CC
@For Standard Chartered Bank cash credit/working capital demand loan limit of Rs 1.5 billion, Rs 1.05 billion is interchangeable with term loan
Facility is fungible with long-term bank facility

Links to related criteria
Rating Criteria for Finance Companies
Criteria for rating Short-Term Debt (including Commercial Paper)

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About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

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About CRISIL Ratings

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CRISIL has revised its rating symbols and definitions with effect from July 11, 2011, to comply with the SEBI circular, 'Standardisation of Rating Symbols and Definitions'. The revised rating symbols carry the prefix, 'CRISIL'. The rating symbols for short-term instruments have been revised to 'CRISIL A1', 'CRISIL A2', 'CRISIL A3', 'CRISIL A4', and 'CRISIL D' from the earlier 'P1', 'P2', 'P3', 'P4', and 'P5', respectively. The revision in the rating symbols and definitions is not to be construed as a change in the ratings. For details on revised rating symbols and definitions, please refer to the document, 'Revision of Rating Symbols and Definitions', at the link, **http://www.crisil.com/ratings/credit-rating-scale.html**