

Tata Motors Finance Limited

Instrument	Amount	Rating Outstanding	Rating Action
Non-convertible debenture programme	Rs. 3000 crore	[ICRA]AA(stable)	Assigned

ICRA has assigned the rating of [ICRA]AA(pronounced ICRA double A) to the Rs. 3,000 crore Non-Convertible Debenture programme of Tata Motors Finance Limited (TMFL)[†]. The outlook on the rating is stable.

ICRA has outstanding rating of [ICRA]AA to the Rs 1,000 crore Non Convertible Debenture programme, Rs 1,400 crore subordinate debt programme, Rs. 15,482 crore long term bank facilities and Rs. 5,223 crore bank facilities which are interchangeable between long term and short term limits of the company. ICRA also has a rating outstanding of [ICRA]A+(pronounced ICRA A plus) to the Rs. 415 crore Perpetual Debt programme and a rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 5,523 crore¹ short term bank facilities and Rs. 5,000 crore Commercial Paper programme of the company[†]. The outlook on the long-term ratings is 'Stable'.

ICRA's rating continues to be based on the strengths TMFL derives from a majority ownership of Tata Motors Limited (TML, rated at [ICRA]AA(stable) for its long term borrowings). ICRA's ratings are based on the consolidated profile of TMFL and its 100% subsidiary Tata Motors Finance Solutions Limited (TMFSL). TMFL is strategically important to its parent as it is a captive financier of TML vehicles (TMFL financed 23.2% of TML volumes in 9MFY16). Given this role, TML supports TMFL by way of equity infusions, management & systems support and also by extending loss covers on certain originations. The rating is underpinned by the expectation that TML would continue to support TMFL, and by TML's capacity to extend support as TMFL's net worth is small in relation to TML's consolidated net worth². As on December 31, 2015 TMFL's Tier 1 capital % was 11.1%, ICRA notes that TML will continue to provide support to TMFL to enable it to maintain a prudent capital structure, while maintaining its majority ownership. The ratings of TMFL however are tempered by its concentration entirely on TML vehicles, and its high delinquency level, which is associated with it being a captive financier of TML. Gross NPA% of TMFL stood at 11.6% in Dec-15 against 15.8) % in Mar-15³. ICRA notes steps taken by the company to augment its recoveries and to improve realizations on disposal of repo stock through refurbishment and also by facilitating financing availability to buyers in the secondary market through the subsidiary TMFSL. Net NPA as % of closing net worth for the company however remains high at 36% in Dec-15; ICRA however expects support from the parentage to be forthcoming incase of need. Weak asset quality continues to impact the earnings profile of TMFL. In 9MFY16, TMFL (standalone) reported a profit after tax of Rs. 135.5 crore, largely on account of one-time extraordinary income of Rs. 163.4 crore. ICRA expects the earnings profile for the company to remain muted over the near term. Over the medium term the success of steps taken by the management to reduce asset quality pressures and to diversify its income streams would have an important bearing of its future earnings profile. ICRA notes the company's incremental lending focus to partly and non TML covered contracts, where credit selection criterion is stronger and asset quality is relatively better; going forward ability of the company to manage its asset quality and improve its earnings would remain a key rating sensitivity. The rating also takes into account the comfortable liquidity position TMFL enjoys on the back of a favorable ALM profile and sufficient un-utilized bank lines. TMFL also enjoys strong financial flexibility and access to long term funding at competitive rates being part of the Tata group.

As on December 31, 2015 TMFL (standalone) had a total managed advance base of Rs. 16,191 crore, out of which 80% was deployed in the Commercial Vehicle segment and 20% in the Passenger Vehicle segment. On a consolidated basis the managed advances of the company as on December 31, 2015 was Rs. 21 113 crore

¹ Interchangeable between Short Term and Long Term fund based limits; out of Rs. 5,523 crore the maximum long term fund based limit utilization is subject to Rs. 5,223 crore

² TML consolidated net worth as on December 31, 2015 was Rs. 80,945 crore, while TMFL's net worth (Standalone) was Rs. 3281 crore

³ Standalone figures. In Mar- 15 as well as Dec 15, NPA classification is based on 5 months overdue only. TMFL had implemented new prudential norms of RBI with effect from Mar-15 only.

out of which contracts covered by risk share arrangements with TML was 24%⁴ and those with risk share arrangements with dealers was 17% and non loss cover 59 %.

During March 2016, the company completed the 100% acquisition of Sheba Properties Limited (SPL) from TML as a part of the strategic initiative of TML to consolidate its financial services subsidiaries under TMFL. SPL is an NBFC, primarily an investment company with total asset of Rs. 203 cr, consisting mainly of investments of 181 cr as of December 2015.

Recent Results

During 9MFY2016, the company on a standalone basis reported a profit after tax of Rs 135.53 crores on a total income of Rs 1929.38 crores as compared to loss of Rs 214.22 crores on a total income of Rs 2182.31 crores during 9MFY2015. The standalone total networth of the company stood at Rs 3280.58 crores with a total asset base of Rs 19,100.35 crores as on December 2015.

Company Profile

Tata Motors Finance Limited

TMFL was established in June 2006 as a wholly owned subsidiary of Tata Motors Limited (TML) to carry on the business of financing CVs and passenger cars manufactured by TML. Earlier, the financing business was carried on through Tata Finance Limited (TFL), which was merged with TML in 2005. Following the merger the financing was done through TMF, a division of TML. However since FY 2010 all fresh financing business has been originated on TMFL's books. In March 2015 TMFL underwent a business re-structuring as part of which its manufacturer guaranteed business and its book⁵ and used vehicle finance business and its book was transferred to a new formed subsidiary Tata Motors Finance Solutions Limited (TMFSL). As part of the re-organization TMFL would continue to focus on partly covered and non-risk covered originations of TML's new vehicles, while the subsidiary would focus on expanding in new segments –TML's used vehicle finance and construction equipment finance for Tata Hitachi. As on March 2015, TMFL operated out of pan-India branch network of 212 branches, where as, TMFL operated out of 230 branches as on Dec 2015.

During the financial year ended March 31, 2015 the company reported a Profit after Tax (PAT) to Rs. 181 crore on managed asset base of Rs. 18,736 crore against a PAT of Rs. 101 crore on managed asset base of Rs. 23403 crore in the previous financial year.

Tata Motors Limited

Incorporated in 1945, Tata Motors Limited (TML) is India's largest automobile company and market leader in the domestic CV industry and amongst top five manufacturers of PVs in India. In the domestic CV industry, TML has one of the most diversified product portfolios with presence spanning across light, medium & heavy duty segments of the CV industry. The company's product portfolio in the PV segment also spans across the passenger cars, Utility vehicles (UV) and Multi-Purpose Vehicles (MPV) segment. In 2014-15, the company's market share in the domestic CV and PV industry stood at 47.2% and 6.2%, respectively.

In June 2008, TML acquired Jaguar Land Rover (JLR) from Ford Motor Company for US\$ 2.3 billion. Following the acquisition, TML's business profile underwent a significant change from being predominantly India-centric OEM to one with presence in the premium & luxury segment cars and SUVs and presence across multiple markets in Europe, North America, China, Russia and Brazil. Apart from JLR which is wholly-owned by TML and contributed ~80% to its consolidated turnover, the company has also historically expanded its operations both in India and overseas through strategic alliances and mergers and acquisitions. Some of its key subsidiaries include a) Tata Motors Finance Limited (vehicle financing subsidiary), Tata Technologies (a software firm engaged in providing IT solutions to the automotive industry), Tata Daewoo (CV operations in South Korea) and Tata Drivelines (its captive auto component manufacturer). The company also operates JVs with Marcopolo (for building bodies for buses & coaches) and Fiat (for PVs, Engines & Transmissions). JLR has also formed a JV with China-based Chery Automobiles to set-up a manufacturing facility in China which has commenced operations from 2014-15.

TML has six manufacturing plants in India located at Pune (Maharashtra), Lucknow (Uttar Pradesh), Jamshedpur (Jharkhand), Pant Nagar (Uttaranchal), Dharwad (Karnataka) and Sanand (Gujarat) in India. In

⁴ Includes arrangements with either 100% risk coverage (23% of portfolio) or where risk coverage is capped at the certain predetermined level (1% of portfolio)

⁵ Losses on these contracts are to be entirely borne by TML

addition, the company's key subsidiary - JLR operates three manufacturing facilities and two design centres in U.K. JLR has recently commenced operations for its Greenfield manufacturing facility in China through a 50:50 JV with China-based Chery Automobiles. It has also announced its plans of setting-up an assembly unit in Brazil, which will gradually expand JLR's total production capacity over the medium-term. Apart from these locations, as a group, TML also operates assembly operations at multiple locations, globally through its subsidiaries/JVs.

TML's consolidated performance continued to derive support from JLR's operating performance as weak market conditions in India pulled down its standalone performance. In 2014-15, the company's consolidated operating income at Rs. 262,796 crore grew by 13% over the prior year. However, profit after tax (PAT) remained flat at Rs. 13,986 crore during 2014-15 as compared to Rs. 13,991 crore in the previous year.

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