

Rating Rationale

February 24, 2017 | Mumbai

Tata Motors Finance Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.20660 Crore
Long Term Rating ¹	CRISIL AA/Positive (Reaffirmed)
Short Term Rating ¹	CRISIL A1+ (Reaffirmed)

Rs.2000 Crore Non Convertible Debentures ¹	CRISIL AA/Positive (Reaffirmed)
Non Convertible Debentures Aggregating Rs.3000 crore ¹	CRISIL AA/Positive (Reaffirmed)
Non Convertible Debentures Aggregating Rs.5000 crore ¹	CRISIL AA/Positive (Reaffirmed)
Subordinated Debt Programme Aggregating Rs.1400 crore ¹	CRISIL AA/Positive (Reaffirmed)
Perpetual Bonds Aggregating Rs.415 crore ¹	CRISIL A+/Positive (Reaffirmed)
Rs.1000 Crore Short Term Debt ¹	CRISIL A1+ (Reaffirmed)

¹ crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

¹The 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.

Detailed Rationale

CRISIL has reaffirmed its ratings on the debt instruments and bank facilities of Tata Motors Finance Ltd (TMFL) at 'CRISIL AA/CRISIL A+ /Positive/CRISIL A1+'.

On October 5, 2016, CRISIL had revised its outlook on the long-term bank facilities and debt instruments of TMFL to 'Positive' from 'Stable' and reaffirmed its ratings on the debt instruments and bank facilities of TMFL at 'CRISIL AA/CRISIL A+/CRISIL A1+'. The outlook revision followed a similar rating action on TMFL's parent, Tata Motors Ltd (TML; rated 'CRISIL AA/Positive/CRISIL A1+').

CRISIL had, on September 30, 2016, reaffirmed its ratings on TMFL'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; subsidiary of TMFL which was acquired from TML in March 2016), while the dealer/vendor financing business will be transferred to TMFL's wholly owned subsidiary, Tata Motors Finance Solutions Ltd (TMFSL; rated 'CRISIL AA/Positive/CRISIL A1+'). 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 National Company Law Tribunal (NCLT).

Analytical Approach

For arriving at its ratings on TMFL, CRISIL has combined the business and financial risk profiles of TMFL and its wholly owned subsidiary, TMFSL. 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.

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.

Key Rating Drivers & Detailed Description

Strengths

* **High strategic importance to, and expectation of strong support from TML**
 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.

TMFL is the captive financier for TML's vehicles and 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 1,150 crore from fiscal 2011 to fiscal 2014. TMFL (on a standalone basis) had adjusted net-worth, and overall capital adequacy ratio of Rs 3,547 crore, and 22.51%, respectively, as on September 30, 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.

* **Leading position in CV finance**
 TMFL is a leading vehicle financier in India and is among India's top-five commercial vehicle (CV) financiers with assets under management (AUM), on a standalone basis and including corporate lending group (CLG) business of Rs 17,990 crore as on September 30, 2016. The consolidated AUM stood at Rs 22,434 crore up 2.06% Y-o-Y driven by 7.81% Y-o-Y growth in TMFL's portfolio though partially offset by run down in TMFSL's AUM that declined to Rs 4,444 crore as on September 30, 2016 (including CLG business) (from Rs 5,294 crore as on September 30, 2015) given no incremental disbursements in manufacturer guaranteed business.

Weakness

* **Asset quality remains under pressure, impacting earnings profile**
 TMFL's asset quality is reflective of the nature of the company's business, which is tilted predominantly in favour of financing TML's customer segments such as first time users and buyers (FTUs and FTBs) of CVs. These customers are generally not catered to by traditional CV financiers as the inherent credit risk in some of the customer segments is relatively high. As a result, the weak portfolio performance has constrained TMFL's asset quality. While the TMFL's asset quality has registered improvement, it continues to remain under pressure with gross and net non-performing assets stood at 10.86% and 6.55% end September 30, 2016 down from 13.55% and 8.58% respectively, a year ago, as result of company's collection efforts coupled with write offs. Owing to asset quality stress, the company's profitability remains modest with annualised return on managed assets at 0.15% end H1 fiscal 2017 (0.78% as at end H1 fiscal 2016). The decline in profitability was mainly due to 83% Y-o-Y decline in other income as H1 FY 2016 included one-time credits of Rs 163 crores.

CRISIL has also factored in potential stress in collections due to demonetisation. CRISIL believes that the government's demonetisation move resulting in the severe contraction of cash in circulation has led to short-term disruption in collections at a portfolio level for most CV financiers. At TMFL, it is pertinent to note that pre-demonetisation around 35%-40% of collections used to come in cash. CRISIL had discussions with the management of TMFL and they have taken necessary steps to reorient their collection model. Some steps include installation of card swipe machines and point of sale (PoS) machines at all of its branches, assisting customers in opening bank accounts and developing online payment options on its websites to promote cash less transactions.

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 financiers of CVs and cars for TML's customers and channel partners. It extends value-added products, combining financing offerings with insurance, channel finance, and other products. The company operates through direct and dealer models and is present at all main dealerships of TML across India. It had 258 branches across 25 states in India as on September 30, 2016.

End H1 2017, the profit after tax (PAT) was Rs 16.0 crore on total income (net of interest expenses) of Rs 531 crore as against PAT of Rs 73 crore (net of interest expenses) of Rs 684 crore as on September 30, 2015

For fiscal 2016, TMFL reported a profit after tax of Rs 96 crore on a total income (net of interest expenses) of Rs 1,073 crore, against a PAT of Rs 179 crore on a total income (net of interest expense) of Rs 972 crore for the previous fiscal.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. 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)	Rating assigned with Outlook
INE909H07AX8	Non- Convertible Debentures^	10-Jan-14	10.25%	10-Jan-19	20	CRISIL AA/Positive
INE909H07AY6	Non- Convertible Debentures^#	30-Jan-14	Zero coupon	20-Jan-17	16	CRISIL AA/Positive
INE909H07BB2	Non- Convertible Debentures^#	30-Jan-14	Zero coupon	27-Jan-17	18	CRISIL AA/Positive
INE909H07BA4	Non- Convertible Debentures^	30-Jan-14	Zero coupon	25-Jul-17	45	CRISIL AA/Positive
INE909H07BF3	Non- Convertible Debentures^	21-Feb-14	Zero coupon	6-Apr-17	3	CRISIL AA/Positive
INE909H07BE6	Non- Convertible Debentures^	21-Feb-14	Zero coupon	17-Aug-17	40	CRISIL AA/Positive
INE909H07BL1	Non- Convertible Debentures^#	5-Mar-14	10.26%	23-Feb-17	8	CRISIL AA/Positive
INE909H07BK3	Non- Convertible Debentures^	5-Mar-14	10.25%	5-Mar-19	15	CRISIL AA/Positive
INE909H07BG1	Non- Convertible Debentures^	5-Mar-14	Zero coupon	2-Mar-17	7	CRISIL AA/Positive
INE909H07BI7	Non- Convertible Debentures^	5-Mar-14	Zero coupon	13-Apr-17	7	CRISIL AA/Positive
INE909H07BM9	Non- Convertible Debentures^	20-Mar-14	10.25%	20-Mar-	20	CRISIL

				19		AA/Positive
INE909H07BN7	Non- Convertible Debentures^	20-Mar-14	10.25%	20-Mar-17	44	CRISIL AA/Positive
INE909H07BS6	Non- Convertible Debentures^	20-Mar-14	10.26%	20-Mar-17	50	CRISIL AA/Positive
INE909H07BU2	Non- Convertible Debentures^	20-Mar-14	10.26%	19-Mar-19	5	CRISIL AA/Positive
INE909H07BR8	Non- Convertible Debentures^	20-Mar-14	Zero coupon	27-Feb-19	13	CRISIL AA/Positive
INE909H07BV0	Non- Convertible Debentures^	10-Oct-14	9.85%	10-Oct-19	55	CRISIL AA/Positive
INE909H07BW8	Non- Convertible Debentures^	10-Oct-14	9.80%	10-Oct-17	85	CRISIL AA/Positive
INE909H07BX6	Non- Convertible Debentures^	10-Oct-14	9.78%	26-Feb-18	79	CRISIL AA/Positive
INE909H07BY4	Non- Convertible Debentures^	17-Oct-14	9.85%	17-Oct-19	100	CRISIL AA/Positive
INE909H07BZ1	Non- Convertible Debentures^	8-Sep-15	Zero coupon	9-Mar-18	100	CRISIL AA/Positive
INE909H07CA2	Non- Convertible Debentures^	7-Oct-15	Zero coupon	8-Oct-18	33	CRISIL AA/Positive
INE909H07CB0	Non- Convertible Debentures^	15-Oct-15	Zero coupon	28-Mar-17	150	CRISIL AA/Positive
INE909H07CE4	Non- Convertible Debentures^	15-Oct-15	Zero coupon	28-Sep-17	25	CRISIL AA/Positive
INE909H07CC8	Non- Convertible Debentures^	15-Oct-15	Zero coupon	25-Sep-18	112	CRISIL AA/Positive
INE909H07CD6	Non- Convertible Debentures^	15-Oct-15	Zero coupon	15-Oct-18	100	CRISIL AA/Positive
INE909H07CH7	Non- Convertible Debentures^	19-Nov-15	9.10%	20-Nov-17	150	CRISIL AA/Positive
INE909H07CI5	Non- Convertible Debentures^	19-Nov-15	9.10%	19-Nov-19	10	CRISIL AA/Positive
INE909H07CF1	Non- Convertible Debentures^	19-Nov-15	Zero coupon	22-Dec-17	355	CRISIL AA/Positive
INE909H07CJ3	Non- Convertible Debentures^	19-Nov-15	Zero coupon	26-Nov-18	14	CRISIL AA/Positive
INE909H07CG9	Non- Convertible Debentures^	19-Nov-15	Zero coupon	6-May-19	5	CRISIL AA/Positive
INE909H07CL9	Non- Convertible Debentures^	17-Dec-15	9.25%	17-Dec-20	40	CRISIL AA/Positive
INE909H07CM7	Non- Convertible Debentures^	17-Dec-15	9.25%	17-Dec-18	85	CRISIL AA/Positive
INE909H07CK1	Non- Convertible Debentures^	17-Dec-15	Zero coupon	11-Apr-19	35	CRISIL AA/Positive
INE909H07CO3	Non- Convertible Debentures^	7-Apr-16	9.20%	8-Apr-19	73	CRISIL AA/Positive
INE909H07CP0	Non- Convertible Debentures^	7-Apr-16	9.20%	6-Apr-21	20	CRISIL AA/Positive
INE909H07CN5	Non- Convertible Debentures^	7-Apr-16	Zero coupon	3-Apr-19	25	CRISIL AA/Positive
INE909H07CQ8	Non- Convertible Debentures^	12-Apr-16	- Zero coupon	15-Apr-18	200	CRISIL AA/Positive

INE909H07CR6	Non- Convertible Debentures^	27-Apr-16	- Zero coupon	12-Mar-19	500	CRISIL AA/Positive
INE909H07CT2	Non- Convertible Debentures^	13-May-16	9.20%	13-May-21	10	CRISIL AA/Positive
INE909H07CS4	Non- Convertible Debentures^	13-May-16	- Zero coupon -	27-Apr-18	110	CRISIL AA/Positive
INE909H07CV8	Non- Convertible Debentures^	31-May-16	9.16%	9-Mar-18	150	CRISIL AA/Positive
INE909H07CW6	Non- Convertible Debentures^	31-May-16	9.20%	31-May-18	20	CRISIL AA/Positive
INE909H07CU0	Non- Convertible Debentures^	31-May-16	- Zero coupon -	30-Mar-18	150	CRISIL AA/Positive
INE909H07CX4	Non- Convertible Debentures^	10-Jun-16	9.20%	10-Jun-21	42	CRISIL AA/Positive
INE909H07CY2	Non- Convertible Debentures^	10-Jun-16	9.20%	10-Jun-19	20	CRISIL AA/Positive
INE909H07DA0	Non- Convertible Debentures^	10-Jun-16	9.20%	10-Jun-18	10	CRISIL AA/Positive
INE909H07DB8	Non- Convertible Debentures^	10-Jun-16	- Zero coupon	8-Jun-18	4	CRISIL AA/Positive
INE909H07CZ9	Non- Convertible Debentures^	10-Jun-16	- Zero coupon	10-Jun-21	5	CRISIL AA/Positive
INE909H07DD4	Non- Convertible Debentures^	28-Jun-16	9.25%	20-Mar-18	25	CRISIL AA/Positive
INE909H07DE2	Non- Convertible Debentures^	28-Jun-16	9.25%	22-Mar-18	50	CRISIL AA/Positive
INE909H07DF9	Non- Convertible Debentures^	28-Jun-16	9.30%	28-Jun-21	22	CRISIL AA/Positive
INE909H07DG7	Non- Convertible Debentures^	28-Jun-16	9.30%	28-Jun-19	69	CRISIL AA/Positive
INE909H07DC6	Non- Convertible Debentures^	28-Jun-16	- Zero coupon	20-Mar-18	125	CRISIL AA/Positive
INE909H07DH5	Non- Convertible Debentures^	22-Jul-16	9.20%	20-Jul-18	230	CRISIL AA/Positive
INE909H07DJ1	Non- Convertible Debentures^	28-Jul-16	9.00%	28-Jul-21	1	CRISIL AA/Positive
INE909H07DK9	Non- Convertible Debentures^	28-Jul-16	9.00%	28-Jun-18	50	CRISIL AA/Positive
INE909H07DI3	Non- Convertible Debentures^	28-Jul-16	-- Zero coupon	23-Jul-19	50	CRISIL AA/Positive
INE909H07DL7	Non- Convertible Debentures^	19-Aug-16	8.58%	17-Aug-18	100	CRISIL AA/Positive
INE909H07DM5	Non- Convertible Debentures^	25-Nov-16	7.95%	25-Nov-18	50	CRISIL AA/Positive
INE909H07DN3	Non- Convertible Debentures^	2-Dec-16	7.86%	2-Dec-18	200	CRISIL AA/Positive
INE909H07DP8	Non- Convertible Debentures^	28-Dec-16	8.05%	28-Dec-18	100	CRISIL AA/Positive
NA	Non- Convertible Debentures*	NA	NA	NA	1642.1	CRISIL AA/Positive
NA	Non- Convertible Debentures%	NA	NA	NA	2102.6	CRISIL AA/Positive
NA	Non- Convertible Debentures*	NA	NA	NA	2000	CRISIL AA/Positive

INE909H08055	Perpetual Debt^	23-Nov-10	11.35%	23-Nov-20	150	CRISIL A+/Positive
INE909H08105	Perpetual Debt^	30-May-12	11.50%	30-May-22	26.9	CRISIL A+/Positive
INE909H08113	Perpetual Debt^	28-Jun-12	11.25%	28-Jun-22	73.1	CRISIL A+/Positive
INE909H08162	Perpetual Debt^	23-May-13	11.33%	23-May-23	22.3	CRISIL A+/Positive
INE909H08154	Perpetual Debt^	28-May-13	11.03%	28-May-23	52.7	CRISIL A+/Positive
INE909H08188	Perpetual Debt^	5-Sep-14	11.10%	5-Sep-24	50.3	CRISIL A+/Positive
NA	Perpetual Debt*	NA	NA	NA	39.7	CRISIL A+/Positive
INE909H08014	Subordinated debt^	20-Jan-10	10.90%	20-Jan-20	200	CRISIL AA/Positive
INE909H08022	Subordinated debt^	25-Mar-10	10.75%	25-Mar-20	88.95	CRISIL AA/Positive
INE909H08030	Subordinated debt^	12-Apr-10	10.70%	10-Apr-20	100	CRISIL AA/Positive
INE909H08048	Subordinated debt^	28-Apr-10	10.70%	28-Apr-20	111	CRISIL AA/Positive
INE909H08063	Subordinated debt^	19-Sep-11	11.00%	17-Sep-21	75.3	CRISIL AA/Positive
INE909H08071	Subordinated debt^	2-Mar-12	11.00%	2-Mar-22	69.15	CRISIL AA/Positive
INE909H08089	Subordinated debt^	26-Mar-12	11.00%	26-Mar-22	10	CRISIL AA/Positive
INE909H08097	Subordinated debt^	22-May-12	11.00%	22-May-22	37.4	CRISIL AA/Positive
INE909H08121	Subordinated debt^	3-Aug-12	10.65%	3-Aug-22	25	CRISIL AA/Positive
INE909H08139	Subordinated debt^	28-Dec-14	10.46%	28-Dec-22	28	CRISIL AA/Positive
INE909H08170	Subordinated debt^	24-May-13	9.85%	24-May-23	100	CRISIL AA/Positive
INE909H08147	Subordinated debt^	28-May-13	10.15%	28-May-23	55.1	CRISIL AA/Positive
INE909H08196	Subordinated debt^	12-Sep-15	10.60%	12-Sep-24	25	CRISIL AA/Positive
INE909H08204	Subordinated debt^	26-Sep-14	10.35%	26-Sep-24	60	CRISIL AA/Positive
INE909H08212	Subordinated debt^	19-Dec-14	9.70%	19-Dec-24	150	CRISIL AA/Positive
NA	Subordinated debt*	NA	NA	NA	265.1	CRISIL AA/Positive
NA	Short Term Debt*	NA	NA	NA	1000	CRISIL A1+
NA	Cash Credit and Working Capital Demand Loan \$@&**	NA	NA	NA	4273	CRISIL AA/Positive
NA	Long-Term Bank Facility &**	NA	NA	NA	8320	CRISIL AA/Positive
NA	Bank Guarantee**	NA	NA	NA	710	CRISIL A1+
NA	Proposed Cash Credit Limit	NA	NA	NA	455	CRISIL

	@ @***					AA/Positive
NA	Proposed Long-Term Bank Loan Facility***	NA	NA	NA	6327.05	CRISIL AA/Positive
NA	Proposed Bank Guarantee***	NA	NA	NA	575	CRISIL A1+

^Rated
 *Rated
 %Rated
 **Sanctioned bank facilities as on 31st Dec 2016 (Note- Long-Term Bank Facilities are net of repayments)
 *** Rated and proposed limits as of 31st Dec 2016
 \$Only cash credit facility, not interchangeable with working capital demand loan facility for the following: Andhra Bank Rs 100 crore, IDBI Bank Rs 10 crore, and Syndicate Bank Rs 10 crore
 & For South Indian Bank- Rs 25 crore of CC is interchangeable with term loan
 @For Standard Chartered Bank cash credit/working capital demand loan limit of Rs 150 crore, Rs 105 crore is interchangeable with term loan
 @@ Facility is fungible with long-term bank facility
 # Outstanding as of 31st Dec 2016.

Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014		Start of 2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	10000	CRISIL AA/Positive		No Rating Change	05-10-16	CRISIL AA/Positive		No Rating Change	10-01-14	CRISIL AA/Stable	CRISIL AA-/Positive
Perpetual Bonds	LT	415	CRISIL A+/Positive		No Rating Change	05-10-16	CRISIL A+/Positive		No Rating Change	10-01-14	CRISIL A+/Stable	CRISIL A/Positive
Short Term Debt	ST	1000	CRISIL A1+		No Rating Change		No Rating Change		No Rating Change		No Rating Change	CRISIL A1+
Subordinated Debt	LT	1400	CRISIL AA/Positive		No Rating Change	05-10-16	CRISIL AA/Positive		No Rating Change	10-01-14	CRISIL AA/Stable	CRISIL AA-/Positive
Fund-based Bank Facilities	LT/ST	19375	CRISIL AA/Positive		No Rating Change	05-10-16	CRISIL AA/Positive		No Rating Change	10-01-14	CRISIL AA/Stable	CRISIL AA-/Positive
Non Fund-based Bank Facilities	LT/ST	1285	CRISIL A1+		No Rating Change	25-04-16	CRISIL A1+	23-12-15	CRISIL AA/Stable/CRISIL A1+		No Rating Change	CRISIL A1+

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Links to related criteria

[Rating Criteria for Banks and Financial Institutions](#)

[Rating Criteria for Finance Companies](#)

[CRISILs Bank Loan Ratings](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Group Support](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)

[Criteria for rating Short-Term Debt \(including Commercial Paper\)](#)

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