Tata Motors Passenger Vehicles Limited

May 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,800.00	CARE AA+; Stable	Assigned
Long-term / Short-term bank facilities	200.00	CARE AA+; Stable / CARE A1+	Assigned
Short-term bank facilities	1,100.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Tata Motors Passenger Vehicles Limited (TMPVL) factor in its strong parentage being wholly owned subsidiary of Tata Motors Limited (TML, rated 'CARE AA+; Stable/ CARE A1+'), a market leader in domestic commercial vehicle (CV) market while the company is one of the top three players in the domestic passenger vehicle (PV) industry. TMPVL has strong operational, managerial, and financial linkages with TML and Tata Group. TMPVL has strong financial flexibility as being part of Tata Group. Ratings also factor TMPVL's established track record as one of the leading players in the domestic PV market and its large sales and distribution network.

CARE Ratings Limited (CARE Ratings) expects TMPVL to maintain and improve its market share in the domestic PV market in the long term. The company's PV segment revenue improved by 5.9% y-o-y in 9MFY24, driven by improved realisations. The company has significantly strengthened its position in the domestic PV market with PV + EV volumes increasing by 46% and 3% in FY23 and 9MFY24, respectively, with consistent increase in market share from 4.8% in FY20 to 14.6% in Q3FY24. The company's PV volumes are expected to grow by about 5-7% over the medium term, supported by surging sport utility vehicle (SUV) demand in India, facelifts, new product launches such as Curvv, traction for CNG models.

However, ratings are tempered by the company's large capex plans in the medium term for meeting consumer and regulatory requirements, technology upgrades, and for improving competitive positioning. Per management guidance, in the medium term, TMPVL will require annual capex spends of up to ₹3,000 crore. The inherent cyclical nature and competitive pressure limits the scope for operating margin expansion through price revision in the domestic PV industry, with high degree of competition envisaged from incumbents and new entrants.

According to CARE Ratings, the recently announced demerger plan of TML segregating its CV and PV (including domestic PV+EV+JLR) businesses into two separately listed companies will not alter its deleveraging plans in each of the companies. CARE Ratings expects strong business profiles of its CV and PV segments to support credit profiles of two independent companies as well. Inline, PV business (PV+EV+JLR) will continue with its deleveraging plans and is expected to be net debt free in FY25.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving credit profile of TML.

Negative factors

- Deteriorating credit profile of TML.
- Weakening of operational performance, leading to significant loss of market share and declining operating margins on a sustained basis.

Analytical approach:

Standalone. For arriving at the ratings, CARE Ratings has used its notch-up framework, factoring support that it derives from being wholly owned subsidiary of TML.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable
The stable outlook reflects the company's ability of maintaining and improving its market position by leveraging its strong brand and new product launches with stable demand scenario will help it in sustaining and improving its business profile over the medium term, while maintaining a strong leverage position.

Detailed description of the key rating drivers:

Key strengths

Strong linkages and support from TML
TMPVL is a part of the Tata group, comprising 30 companies across 10 verticals, including Information Technology (IT), steel, automotive, consumer and retail, infrastructure, financial services, aerospace and defence, tourism and travel, telecom and media, and trading and investment. The group's operations span more than 100 countries across six continents. TMPVL is a wholly owned subsidiary of TML, who is the market leader in the domestic CV market. TMPVL is among the top three players in the domestic PV segment. In FY22, TMPVL was formed because of hiving off of TML's PV unit to focus on PVs powered by internal combustion engines. TMPVL has managerial linkages with TML as evidenced by presence of common directors, Usha Sangwan is the common independent director between TML and TMPVL. P B Balaji, Tata Motors Group CFO, is also on the Board of TMPVL. TMPVL has operational linkages with TML with closely integrated operations and treasury. TMPVL continues to be strategically important to the Tata group. The key management personnel of TMPVL have long-standing association with Tata Group. TMPVL has outstanding ICD's amounting to ₹2,735 crore issued to TML as on March 31, 2023, exhibiting financial linkages between TML and TMPVL. Being a part of the Tata group, TMPVL receives immense financial flexibility.

Improving market share in the PV business
TML's PV market share has been consistently increasing, from 4.8% in FY20 to 13.5% in FY23 (PY: 11.4%), driven by strong demand for the 'New Forever' portfolio and agile actions on demand and supply side. It further improved to 14.6% in Q3FY24. Demand emanated from increasing preference towards personal mobility, success of new product launches and availability of multiple powertrain options. The PV business recorded revenue growth of 5.9% and PBILDT margin of 6.1% in 9MFY24, driven by marginal volume growing by 3%. In FY23, PV business volume grew by 45.4%, driven by post COVID-19 pent-up demand in the early part of the year and new product variants and multi-power train strategy. All four SUVs – Nexon, Punch, Harrier, and Safari – recorded their highest-ever annual sales, contributing a substantial 66% of the total volume in FY23.

Improving in scale of operations and operating margins
The PV industry grew by 27% YoY in FY23. This segment posted the highest-ever domestic sales surpassing the previous peak of FY19. The demand for higher-end variants and premium SUVs helped sustain sales in FY23. However, the entry level variant remains under pressure affected by high interest rates and an inflationary environment. In FY24, the industry reported 8% growth in sales volumes due to a sustained demand for PVs and a robust order backlog.
In FY23, the company reported volume growth of 45.8% in the PV segment driven by post COVID-19 pent-up demand in early part of the year, launch of several new variants and availability of multiple power trains. All four SUVs: Nexon, Punch, Harrier and Safari recorded their highest ever annual sales contributing a substantial 66% of the total volume in FY23.
In FY24, the company's PV volumes improved by 6% supported by strong growth in SUV sales (SUVs expected to surpass 50% of overall sales in FY24 vs 43% in FY23) and rising popularity of emission friendly powertrains. With sales of cars powered by traditional fuels (petrol and diesel) flattening, almost the entire incremental volume growth of FY25 is expected from rising sales of emission-friendly powertrains.
The company's total operating income (TOI) has significantly increased from ₹16,846.05 crore in FY21 to ₹48,873.05 crore in FY23 driven by strong demand for the 'New Forever' portfolio. In 9MFY24, the company has reported TOI of ₹38,181 crore (PY: ₹36,161 crore). Over the last three years, operating margins have improved to 5.66% in FY23 from 3.19% in FY22 and operating losses in FY21 considering various cost control and value engineering initiatives undertaken by the company and due to benefits of favourable operating leverage as the scale of operations improved. In 9MFY24, the operating margins further improved to 6.07%.

Strong financial risk profile
The company has strong financial risk profile characterised by robust capital structure and healthy debt coverage indicators. Long-term debt equity ratio and overall gearing (including LC acceptances) improved to 0.13x (PY: 0.14x) and 0.41x (PY: 0.46x) as on March 31, 2023. The company has a term loan of ₹587.08 crore (recorded in books at ₹212.71 crore as on March 31, 2023) from

Government of Gujarat (GoG) is due for repayment from the quarter ending March 31, 2033, to quarter ending March 31, 2039, and simple interest at the rate of 0.10% p.a.

The company had long-term debt aggregating ₹948.71 crore as on March 31, 2023. Majority of the long-term debt is considering lease liabilities of ₹736.00 crore (PY: ₹748.41 crore). The company has also acceptances of ₹1,940.76 crore (PY: ₹2,036.34 crore) as on March 31, 2023. The company has not utilized its fund-based working capital limits and has liquidity buffers of ₹2,000 crore as on March 31, 2024. The company has comfortable debt coverage metrics with improved total debt/ GCA, total debt/ PBILDT and interest coverage ratio to 1.01x (PY: 2.50x), 1.05x (PY: 2.86x), and 12.26x (PY: 4.83x), respectively in FY23.

The company has free cash and cash equivalents of ₹542 crore as on March 31, 2023. Apart from this, the company has extended inter-corporate deposits (ICDs) to the tune of ₹2,735 crore to the parent entity, TML, which are repayable on demand and further adding to TMPVL's liquidity buffer.

Plans to demerge TML into two separate listed companies across CV and PV businesses

CARE Ratings notes the recent announcement of demerger in TML's operations into two separate listed companies for CVs and PVs, subject to the National Company Law Tribunal (NCLT) and shareholder approvals, likely to be completed in 12-15 months. Post-demerger, the PV business will house the existing domestic PV, JLR, and EV, which is expected to continue its growth trajectory and deleveraging plan and be net debt-free in FY25. CARE Ratings expects that despite the de-merger, PV and CV businesses will continue growing, maintaining their respective strong market positions, and improving cashflow generation for maintaining deleveraged balance sheets. Post de-merger, CV and PV businesses are expected to maintain net auto debt to PBILDT lower than 0.5x, in line with deleveraging plans, which is expected to support their independent credit profiles. Even on factoring stressed assets of TML's NBFC arm, which has sharply reduced stressed assets in 9MFY24 as compared to FY23, the net auto debt to PBLIDT is expected to remain lower than 0.5x for the CV company, post-demerger.

Key weaknesses

Inherent cyclicality and competitive nature of the domestic PV industry

The domestic PV industry is prone to cyclicality to a certain extent, dependent on the macroeconomic environment and other factors such as increasing fuel prices, rising interest rates, and the resultant rise in overall inflation. The domestic PV market remains highly competitive, with a few large players such as Maruti Suzuki, Hyundai, Tata Motors, and Mahindra & Mahindra, dominating the domestic PV market accounting for around 75-80% market share. As consumer preferences have shifted from smaller cars to utility vehicles, competitive intensity has been increasing in the compact and mid-size utility vehicle segments. The domestic PV industry is highly competitive with frequent model launches by the existing and new players, aiming at increasing their market share in the growing market.

Profitability susceptible to commodity price cycles and regulatory interventions

TMPVL's profitability remains vulnerable to increases in input costs, either due to commodity price cycles or regulatory interventions such as tightening emission and safety norms, restrictions/increase in duties on import of key components. Their ability to pass on the same to customers without adversely impacting its market share or profitability margins remains a key monitorable.

High capital intensity of its businesses

The automobile industry is highly capital intensive and requires huge investments for continuously upgrading technology and launching new products. Per management guidance, in the medium term, TMPVL will require annual capex spends of up to ₹3,000 crore. TMPVL's ability to generate healthy free cashflows and maintain its net-auto debt-free status in an industry downturn can be severely tested in the backdrop of its huge capex requirements on a continuous basis for keeping itself abreast of evolving technologies, meeting regulatory norms on emission reduction.

Liquidity: Strong

Liquidity is marked by strong cash accruals, cash and cash equivalents of ₹542 crore as on March 31, 2023, and liquidity buffers of ₹2,000 crore as on March 31, 2024. TMPVL has outstanding ICDs amounting to ₹2,735 crore issued to TML as on March 31, 2023. Being a part of the Tata Group gives the company immense financial flexibility in terms of refinancing. The company does not have any term debt obligations in the medium term.

Applicable criteria

[Definition of Default]
[Factoring Linkages Parent Sub JV Group]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Automobile and auto components	Automobiles	Passenger cars & utility vehicles

Historically a CV manufacturer, TML forayed into manufacturing PV across all product segments compact, mid-size, and utility in 1998-99, broadening its business horizon. On January 01, 2022, the PV Undertaking of TML was transferred to TMPVL as a going concern, on a slump sale basis, and TMPVL (name changed from TML Business Analytics Services Ltd on September 17, 2021) ceased to be subsidiary of TML Business Services Ltd and became the direct subsidiary of TML on January 01, 2022. The subsidiarisation of TMPVL under TML was to focus on PVs powered by internal combustion engines to provide a differentiated focus for the Passenger Vehicle Business, realizing its potential and unlocking business value by enhanced management focus and operational flexibility. TMPVL designs, manufactures, and sells a wide range of automotive PVs, primarily in the Indian market. In FY23, the company had the third highest market share in the Indian PV market at 13.5%. In Q3FY24, it further improved to 14.6%.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	December 31, 2023 (UA)
Total operating income	32,710.72	48,873.05	38,181
PBILDT	1,042.09	2,763.88	2,319
PAT	(851.35)	612.05	NA
Overall gearing (times)	0.46	0.41	NA
Interest coverage (times)	4.83	12.26	10.08

A: Audited; UA: Unaudited; NA: Not available; Note: 'these are latest available financial results'

Note: Financials are classified as per CARE's standards

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working capital limits	-	-	-	-	1800.00	CARE AA+; Stable
Fund-based - ST-Term loan*	-	-	-	-	100.00	CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG*	-	-	-	-	200.00	CARE AA+; Stable / CARE A1+
Non-fund-based - ST-Working capital limits	-	-	-	-	1000.00	CARE A1+

*Proposed

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	200.00	CARE AA+; Stable / CARE A1+				
2	Non-fund-based - ST-Working capital limits	ST	1000.00	CARE A1+				
3	Fund-based - ST-Term loan	ST	100.00	CARE A1+				
4	Fund-based - LT-Working capital limits	LT	1800.00	CARE AA+; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not available

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working capital limits	Simple
2	Fund-based - ST-Term loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Non-fund-based - ST-Working capital limits	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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