

## Tata Motors Body Solutions Limited

December 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term / Short-term bank facilities	130.00	CARE AA+; Stable / CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Tata Motors Body Solutions Limited (TMBSL) derives significant strength from its strong parentage of Tata Motors Limited (TML, *rated CARE AA+; Stable/CARE A1+*), which holds 100% stake in the company and is captive company providing bus body solutions to TML. Ratings also factor TML's strong articulation to maintain 100% shareholding of TMBSL and ensure that TMBSL has sufficient funds at all times to meet all its debt repayment obligations in a timely manner on every due date on the back of high strategic and economic importance of TMBSL to TML. The ratings also draw comfort from the financial flexibility and valuable industry expertise provided by its holding company resulting in healthy revenue growth, the expected recovery in profitability with implementation of job work arrangement with TML w.e.f. July 2024. Ratings also draw strength from planned infusion of Rs.250 crore long-term loan by TML along-with availability of unutilised line of credit of Rs.100 crore from TML.

The ratings are however constrained due to presence of TMBSL in cyclical commercial vehicles (CV) industry and weak financial profile of TMBSL on a standalone basis marked by consecutive cash losses up to FY24 leading to negative net-worth.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in credit profile of TML

#### Negative factors

- Weakening of linkages with TML or delay in support to TMBSL affecting TMBSL's liquidity
- Any significant debt-funded capex or acquisition, adversely impacting the debt protection metrics
- Inability to improve operating margins on a sustained basis

### Analytical approach: Standalone

Factoring strong operational, financial, and managerial linkages with TML. For arriving at the ratings, CARE Ratings Limited (CARE Ratings) has used its notch-up framework, considering the support derived from being part of TML.

### Outlook: Stable

CARE Ratings Limited (Care Ratings) believes that with job work arrangement in place with TML, TMBSL shall be benefited with elimination of its exposure to the volatility in raw material prices leading to more stable performance going forward.

### Detailed description of the key rating drivers:

#### Key strengths

##### Strong parentage and operational linkages with TML

TMBSL benefits from being a wholly owned subsidiary of Tata Motors Limited (TML) and is a key provider of bus body solutions, fulfilling nearly 50% of TML's ICE bus requirements and 100% of EV bus requirements. The company gains from managerial support, board representation, and the expertise of the larger organisation. There is a strong oversight of TML over the operations of TMBSL. This relationship underscores TMBSL's strategic importance and enables it to leverage operational and financial flexibility for easy access to external funding. TML has also extended significant financial support to TMBSL through a long-term loan of ₹250 crore, approved ICDs of up to ₹100 crore for working capital needs. Also, there is strong articulation of TML to maintain 100% shareholding of TMBSL and ensure that TMBSL has sufficient funds at all times to meet all its debt repayment obligations in a timely manner on every due date.

##### Transitioning to a job-work model post-Q1FY25, expected to improve profitability

TMBSL has adopted a job-work model after Q1FY25. This shift allows the company to streamline its operations by focusing exclusively on bus body assembly, while TML assumes responsibility for supplying necessary raw materials. This strategic shift is expected to enhance profitability by reducing exposure to raw material price fluctuations and ensuring more stable margins.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

Although revenue would moderate with lower scale, fixed job-work fees provide a predictable income stream, positioning TMBSL for a more sustainable growth moving forward.

### **Expanded capacity and enhanced capacity utilisation boosted scale of operations**

TMBSL achieved significant growth in FY24, with total operating income (TOI) rising substantially due to enhanced bus manufacturing capacity, utilisation, and improved volumes. This growth was driven by TMBSL's ability to meet TML's demand for electric buses, resulting in a rise in EV sales to 16% of total sales. However, as the company transitions to a job-work model for TML in FY25, TMBSL expects revenue in the range of ₹600-650 crore in FY25, marking a strategic shift towards a more service-oriented approach but with better operating margins.

### **Low counterparty credit risk**

TMBSL faces low counterparty credit risk due to its dependence on TML for ~96% of its revenue. TML's strong credit rating and financial stability reduce the likelihood of payment delays or defaults. This financial strength and stable market position ensure that TMBSL's revenue stream is secure and predictable, mitigating typical counterparty risk concerns.

### **Liquidity: Strong**

The company's liquidity is supported by crucial backing from TML, including a ₹250 crore long-term loan and approved line of credit of up to ₹100 crore for working capital needs. This financial support is helping TMBSL to repay its existing short-term borrowings. As of FY24, cash and bank balances stood at ₹34.46 crore, with the operating cycle reduced to nine days, well below the four-year average. Going forward, due to the change in its business model, the utilisation of working capital limits is expected to be very minimal. Repayment of TML's debt would begin from FY27 onwards with nearly two years' moratorium.

### **Key weaknesses**

#### **Subdued profitability levels, however expected to improve in FY25 with change in business model**

The company experienced subdued profitability in FY24, with PBILDT margins dropping due to increased raw material costs. Challenges from capacity expansion for electric vehicle (EV) manufacturing and increased finance costs, driven by higher working capital utilisation, further impacted margins. However, with the shift to a job work business model in FY25, operational efficiency and profitability margins are expected to improve.

#### **Weak financial risk profile marked by negative net worth**

The financial risk profile of TMBSL stood weak, despite the company successfully repaying one of its term loans and clearing inter-corporate deposits, as it faces challenges related to a negative net worth arising from cash losses incurred over the years and substantial dependence on short-term borrowings. However, with the change in its business model, TMBSL will no longer require significant working capital limits, leading to a substantial reduction in debt levels. Most outstanding working capital limits will be repaid before end-FY25 through internal accruals and the long-term loan from TML. The company aims to improve its financial risk profile by restricting its borrowings and enhancing liquidity through increased profitability.

#### **Susceptible to cyclicity in bus business of TML**

The company's revenues are exposed to the highly cyclical bus segment within the CV segment, which depends on budget allocations for public transportation and economic conditions. This, coupled with the entry of various global manufacturers, has altered the market dynamics, making it a highly challenging business for original equipment manufacturers (OEMs) like TML, thereby impacting the company's growth. Additionally, TMBSL remains largely dependent on TML for operations as it constitutes ~96% of TMBSL's TOI in FY24.

### **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](#)

[Auto Components & Equipments](#)

[Short Term Instruments](#)

### **About the company and industry**

#### **Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components & equipments

Tata Motors Body Solutions Limited (TMBSL) was initially established as a 51:49 joint venture between Tata Motors Ltd. and Marcopolo S.A. of Brazil. TML increased its stake to 61.86% in March 2022. However, in August 2022, Marcopolo sold its remaining 38.14% stake to TML, making TMBSL a wholly owned subsidiary of TML. The company operates manufacturing facilities at Dharwad, Karnataka and Lucknow, Uttar Pradesh with an annual production capacity of up to 27,000 bus bodies. The company specialises in producing fully built buses, tipper truck bodies, and mobile dispensing units. TMBSL builds bus bodies on chassis supplied by TML. Starting in Q2FY25, TMBSL has transitioned to a job-work model, focusing on assembly and integration while TML covers raw material costs.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	783.93	1,375.87	484.59
PBILDT	6.05	3.25	3.83
PAT / (Net losses)	-24.88	-45.59	NA
Overall gearing (times)	71.73	NM	NA
Interest coverage (times)	0.36	0.10	NA

A: Audited, UA: Unaudited, NA: Not Available; NM: Not Meaningful; Note: these are the latest available financial results, and the financials presented are based on CARE Ratings' computations.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	130.00	CARE AA+; Stable / CARE A1+

**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	Fund-based/Non-fund-based-LT/ST	LT/ST	130.00	CARE AA+; Stable / CARE A1+				

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

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

## Contact us

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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.

### Disclaimer:

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