January 22, 2021

# Tata Capital Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| NCD programme | 500.00 | 500.00 | [ICRA]AAA(stable); reaffirmed |
| Commercial Paper Programme | 2,000.00 | 2,000.00 | [ICRA]A1+; reaffirmed |
| **Total** | **2,500.00** | **2,500.00** | |

**Instrument details are provided in Annexure-1*

# Rationale

Tata Capital Limited (TCL; rated [ICRA]A1+) is a holding company with a diversified presence in the lending business through its three key subsidiaries i.e. Tata Capital Financial Services Limited (TCFSL), Tata Capital Housing Finance Limited (TCHFL) and Tata Cleantech Capital Limited (TCCL). TCL's subsidiaries operate primarily in consumer loans, housing finance, vehicle finance, commercial finance, infrastructure finance and other financial services businesses. While arriving at the ratings for TCL, ICRA has considered the consolidated business and financial risk profiles of TCL and its subsidiaries – TCFSL, TCHFL and TCCL (collectively referred to as Tata Capital group) as these entities have significant operational and management linkages and operate under the common Tata Capital brand.

The rating for Tata Capital group derives significant strength from its parentage, Tata Sons Limited (TSL; rated [ICRA]AAA(Stable)/[ICRA]A1+), which owned 94.55% of TCL's equity shares[1] as on September 30, 2020, and the strategic importance of the financial services business (housed under TCL and its subsidiaries) to the Tata Group.. The rating is also supported by TSL's stated intent of keeping Tata Capital group adequately capitalised on a consolidated basis and to continue maintaining significant ownership and management control in the company. The importance of the Tata Capital Group to TSL is also highlighted through the Rs. 2,500-crore capital infusion in FY2019 and further Rs. 1,000 crore in Q3FY2020. The rating also factors in the Group's diverse product mix, higher share of the retail loan book (~60% of aggregate portfolio as on September 30, 2020), strong liquidity position with adequate cash and liquid investments and unutilised bank lines across subsidiaries, diversified funding profile and financial flexibility arising from being a part of the Tata Group, healthy asset quality indicators (combined gross stage 3% of 1.97% as on September 30, 2020) and the healthy provision cover (83% as on September 30, 2020). ICRA has also taken note of the moderate earnings profile and relatively high level of consolidated gearing level for the group, albeit improving, supported by the capital support from TSL. ICRA believes the prudent capitalisation level is one of the key mitigants against delinquencies and other credit risks associated with the lending business and expects that support from TSL would be forthcoming, if required. Notwithstanding the current asset quality indicators, given the challenges in the operating environment due to Covid-19 related lockdown and impact on cashflows of borrowers, there could be some increase in delinquencies for the group over the medium term. The group's ability to manage recoveries or mitigate losses through the enforcement of security while arresting fresh slippages and thus keeping a check on the credit costs will have a bearing on its overall earning profile. Additionally, the business growth across product lines is likely to be moderate in the immediate term.

[1] *Balance held by Tata Investment Corporation Limited (2.32%), TCL Employee Welfare Trust (1.51%) and Others (1.94%)*

## Key rating drivers and their description

### Credit strengths

**Strong parentage and strategic importance to the group -** TCL is a majority-owned subsidiary of TSL (TSL held 94.55% equity shares of TCL as on March 31, 2020). TCL enjoys strong financial and operational support from TSL, which, in the past, has included access to capital, management and systems, and supervision by a strong board. TCL also enjoys strong commitment from TSL as TCL (through its subsidiaries) is the primary financial services lending arm for the Tata Group. Given the importance of the financial services business to the Tata Group and TSL's stated intent to keep TCL adequately capitalised on a consolidated basis, ICRA expects TSL to continue to provide financial support to enable TCL to maintain a comfortable capitalisation and liquidity profile. ICRA also expects TSL to continue maintaining significant ownership and management control in TCL. The importance of the Tata Capital Group to TSL is also highlighted by the Rs. 2,500-crore capital infusion in FY2019 and further Rs. 1,000 crore in Q3FY2020. Any dilution in TCL's importance for TSL or in the expectation of support from TSL or a change in TSL's credit profile would be a key rating sensitivity.

**Diverse product mix; higher share of retail portfolio -** The total lending book (on a combined basis for TCFSL+TCHFL+TCCL) remained broadly stable at Rs. 76,243 crore as on September 30, 2020 as compared to Rs. 76,346 crore as on March 31, 2020 (from ~Rs. 75,946 crore as on March 31, 2019) with retail loans comprising ~60% of the aggregate portfolio. The loan book is fairly diversified across various products in wholesale and retail lending. The wholesale loan book comprised of corporate loans and credit substitutes and builder loans (24% of the total combined loan book as on September 30, 2020), channel financing (9%), infrastructure and project loans (8%) and loan against shares (0.5%). ICRA also notes the relatively lower credit concentration of large exposures within the wholesale book compared to peers. The retail loan book comprised of home loans (21% of the total combined loan book), home equity/loan against property (LAP; 17%), personal loans (10%), construction equipment financing (5%), auto financing (5%) and others (1%). While portfolio growth in FY2021 is likely to moderate from the past levels, the loan book is expected to remain well diversified across products and borrower/Group level exposures.

**Diverse borrowing profile and good financial flexibility -** The Tata Capital Group enjoys good financial flexibility, being a part of the Tata Group, with access to funds at competitive rates of interest and from various sources. TCL's consolidated funding profile is fairly diversified with a mix of non-convertible debentures, bank borrowings, and commercial paper. As on March 31, 2020, the overall capital market borrowings stood at ~48% of the total aggregate borrowings. The proportion of commercial papers in the aggregate funding mix declined to ~10% as on March 31, 2020 from 14% as on March 31, 2019. ICRA takes comfort from the company's cash flow from its short-term assets and its policy of maintaining adequate unutilised bank facilities as a liquidity backup.

**Comfortable asset quality and healthy provision cover** - On an aggregate basis, TCL's asset quality indicators moderated with GNPA and NNPAs of 1.96% and 0.56%, respectively, as on March 31, 2020, against 1.75% and 0.36%, respectively, as on March 31, 2019 owing to some fresh slippages in FY2020. Gross stage 3 has remained stable during H1FY2021 at 1.97% as on September 30, 2020, however NNPA has improved to 0.33% on September 30, 2020 owing to higher provision cover of 83% as on September 30, 2020 as against (~72% as on March 31, 2020). Going forward, ICRA expects the overall asset quality to remain comfortable and company to maintain healthy provision cover to protect the balance sheet against asset quality risk though some uptick is possible due to stress in some key lending segments and as the portfolio seasons.

However, given the current economic disruption due to COVID-19 related lockdown, there could be some short-term stress, especially in the retail loan book, as the livelihood and cash flows of the underlying borrowers have been impacted. While the announcements by the Reserve Bank of India (RBI) – allowing the lenders to provide repayment moratorium to their borrower without impacting the loan asset classification – provided some temporary relief to the lenders in term of their asset quality, ICRA expects the challenges in maintaining the asset quality to continue over the medium term. Nonetheless, the additional provisions built by the group could mitigate the impact on the profitability.
Further, the one-time restructuring scheme announced by the Reserve Bank of India (RBI) is expected to provide additional support to the affected underlying borrowers in the current environment. As per the management, less than 2% of the overall

portfolio is likely to undergo restructuring under the scheme. Overall, the Group's ability to profitably grow business volumes while maintaining the asset quality would have a bearing on its overall financial profile and would be a key monitorable.

### Credit challenges

**Consolidated gearing remains relatively high; albeit improving, stated intent of TSL to keep TCL Group's capitalisation adequate provides comfort -** On a consolidated basis, TCL's capitalisation profile is supported by the capital infusion from the parent TSL, reflected by the capital infusion of Rs. 2,500 crore in FY2019 and Rs. 1,000 crore in Q3FY2020 as well as TSL's stated intent to provide regular capital support to TCL to enable it to maintain an adequate capitalisation profile. Following the capital infusion in FY2019 and FY2020, TCL's consolidated gearing declined to 7.73 times as on March 31, 2020 from 8.74 times as on March 31, 2019 (11.75 times as on March 31, 2018). On standalone basis, TCL's net worth stood at Rs. 6,870 crore as on March 31, 2020 with a capital adequacy ratio (adjusted net worth/ risk weighted assets) of 65%, which is significantly above the regulatory requirements of 30% for a core investment company (CIC). The company also had a comfortable standalone leverage ratio of 0.55 times as on March 31, 2020, against the regulatory cap of 2.5 times for a CIC. With muted portfolio growth in H1FY2021, combined gearing for TCFSL+TCHFL+TCCL stood at ~6.6 times as on September 30, 2020. The gearing, nonetheless, remains relatively high and the group would need external capital if the growth in portfolio picks up in FY2022, to maintain prudent capitalisation levels, given the moderate internal capital generation. ICRA expects that financial support from the parent would be forthcoming, as and when required.

**Moderate earnings profile -** In FY2020, on a consolidated basis, TCL reported a profit after tax (PAT) of Rs. 156 crore as compared to Rs. 1,029 crore in FY2019. TCL's net interest margins (NIMs) improved to 3.93% in FY2020 from 3.26% in FY2019 on account of improvement in yields and decline in cost of fund. Notwithstanding the decline in operating expenses (2.20% of ATA in FY2020 from 2.73% in FY2019), higher credit costs primarily on account of Covid-19 provisioning of Rs. 315 crore in FY2020 (1.72% of ATA in FY2020 from 0.91% in FY2019) and lower non-interest income on account of net loss on fair value changes in FY2020 (0.96% of ATA in FY2020 from 2.24% in FY2019) led to moderation in the group's reported RoA and RoE to 0.19% and 1.90%, respectively, in FY2020 as compared with 1.41% and 17.42%, respectively, in FY2019. In H1FY2021, on a combined basis (TCL group; TCFSL+TCHFL+TCCL), TCL reported a profit after tax (PAT) of Rs. 490 crore as compared to Rs. 169 crore in H1FY2020. TCL group's net interest margins (NIMs) improved to 4.85% in H1FY2021 from 4.19% in H1FY2020 on account of stable yields and decline in cost of funds. Notwithstanding the higher credit costs (1.93% of ATA in H1FY2021 from 1.68% in H1FY2020), decline in operating expenses (1.78% of ATA in H1FY2021 from 2.21% in H1FY2020) led to improvement in RoA and RoE to 1.21% and 9.63%, respectively, in H1FY2021 as compared with 0.42% and 3.63%, respectively, in H1FY2020. Going forward, the group's ability to control fresh slippages and recover from existing delinquent accounts and thus keeping a check on the credit costs will be important to improve the earnings profile from current levels.

## Liquidity position: Strong

The liquidity profile of the group is strong at a consolidated level. As on September 30, 2020, total combined (TCL+TCFSL+TCHFL+TCCL) debt repayments[2] till March 31, 2021 stood at Rs. 16,643 crore of which WCDL constitute ~Rs. 3,956 crore. As on September 30, 2020, combined cash and liquid investments stood at Rs. 2,372 crore. Additionally, the total sanctioned unused bank lines maintained across subsidiaries aggregating to Rs. 11,572 crore as on September 30, 2020 provides comfort for the consolidated liquidity profile of group. Additionally, the combined collections and disbursements for Q2FY2021 stood at Rs. 21,415 crore and Rs. 19,472 crore respectively. The group also enjoys strong financial flexibility to mobilise long term funding on the back of its established track record and strong parentage.

### Rating sensitivities

**Positive factors –** Not applicable

[2] Including interest; Excluding ICD to group subsidiaries.

**Negative factors –** Pressure on ratings could emerge because of deterioration in TCL's consolidated capitalisation profile on a sustained basis and/or weakening of asset quality leading to deterioration in solvency (Net Stage III/ Net Worth >20%) on a sustained basis. Any significant change in likelihood of support from the parent or deterioration in parent's credit profile could warrant a rating revision.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | ICRA's Credit Rating Methodology for Non-Banking Finance Companies<br>Impact of Parent or Group Support on an Issuer's Credit Rating |
| **Parent/Group Support** | Ultimate Parent/Investor: Tata Sons Limited<br>TCL is majority owned subsidiary of TSL with TSL owning 94.55% equity shares of TCL as on September 30, 2020. TCL enjoys strong financial and operational support from TSL, which in the past has included access to capital, management and systems and supervision by a strong board. TCL also enjoys strong commitment from TSL given that TCL (through its subsidiaries) is the primary financial services lending arm for Tata group. |
| **Consolidation/Standalone** | While arriving at the rating for TCL, ICRA has considered the consolidated performance of TCL and its subsidiaries carrying businesses as finance companies given the strong operational and financial synergies between the companies. *Details mentioned in Annexure 2.* |

# About the company

TCL is a subsidiary of Tata Sons Limited, which holds 94.55% of TCL as on September 30, 2020. Balance shareholding of TCL is owned by Tata Investment Corporation Limited, TCL Employee Welfare Trust and others.

TCL is registered as a core investment company and is the holding company for various financial services of the Group including Tata Capital Financial Services Limited (TCFSL), Tata Capital Housing Finance Limited (TCHFL), Tata Cleantech Limited (TCCL). TCL also holds strategic and private equity investments in some companies. For H1FY2021, the company reported a standalone net profit of Rs. 23.71 crore on a total standalone asset base of Rs. 10,160 crore against a net profit of Rs. 47.40 crore on a total standalone asset base of Rs. 10,210 crore in H1FY2020.

On a consolidated basis, TCL reported PAT of Rs. 156 crore in FY20 on total asset base of Rs. 83,280 crore vs. PAT of Rs. 1,029 crore in FY19 on total asset base of Rs. 80,925 crore.

**Tata Sons Limited**

Tata Sons Limited, founded in 1917 by the Tata Group's founder, Shri JN Tata, is the principal holding company of the Tata Group and the owner of the Tata brand and associated trademarks. Charitable trusts own most of Tata Sons' shares at 66%. While income from dividends and profit generated on the sale of investments constitute the principal revenue source for the company, it also includes royalty fees earned from Group companies for using the Tata brand. Such fees, however, are largely spent on brand promotion. Tata Sons also provides certain Group-level services to Tata companies, key among them being facilitating business excellence within the Group by conducting training programmes (through Tata Quality Management Services) and by providing legal assistance and human resource (HR) services. TCS, one of the largest software companies in India and the highest contributor to Tata Sons in terms of revenues and profits, was spun off as a separate entity in FY2005. Currently, Tata Sons' equity investments are spread across seven major industry segments and include investments in flagship concerns like TCS, Tata Steel Limited, The Tata Power Company Limited, Tata Motors Limited, Tata Chemicals Limited, TTSL and Tata Global Beverages Limited, among others.

## Key financial indicators (audited)

| Tata Capital Limited (standalone) (In Rs. Crore) | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Dividend Income | 232.61 | 205.71 | 169.10 |
| Operating Income | 113.47 | 82.35 | 131.54 |
| Operating expenses | 103.56 | 196.21 | 67.26 |
| Profit after Tax | 36.56 | 27.53 | 29.26 |
| Investment Book | 6,779.82 | 8,266.95 | 9,000.63 |
| Capital Adequacy Ratio | 41% | 61% | 65% |
| Leverage Ratio | 0.85 | 0.74 | 0.55 |
| Return on Average Assets | 0.52% | 0.33% | 0.30% |
| Return on Average Net Worth | 1.11% | 0.60% | 0.46% |

*Source: Company, ICRA Research; All ratios as per ICRA calculations*

| Tata Capital Limited (consolidated) (In Rs. Crore) | FY2018 | FY2019 | FY2020 |
|---|---|---|---|
| Net Interest Income | 2,167 | 2,383 | 3,228 |
| Non-interest Income | 735 | 1,691 | 823 |
| Credit costs | 331 | 665 | 1,412 |
| Operating Expenses | 1,519 | 1,994 | 1,803 |
| Profit before Tax | 1,097 | 1,415 | 668 |
| Profit after Tax | 678 | 1,029 | 156 |
| Net Worth | 4,799 | 8,118 | 9,316 |
| Total Assets | 65,213 | 80,925 | 83,280 |
| Return on Assets (%) | 1.12% | 1.41% | 0.19% |
| Return on Equity (%) | 17.19% | 17.42% | 1.90% |
| Gearing (times) | 11.75 | 8.74 | 7.73 |

*Source: Company, ICRA Research; All ratios as per ICRA calculations*

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

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2021) | | | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Dec-31-20 (Rs. crore) | Date & Rating in | Date & Rating in FY2020 | | Date & Rating in FY2019 | Date & Rating in FY2018 |
| | | | | | Jan-22-21 | Feb-27-20 | Sep-27-19 | Aug-29-18 | Sep-27-17 |
| **1** | Non-convertible debentures | Long Term | 500 | 205 | [ICRA]AAA (stable) | [ICRA]AAA (stable) | - | - | - |
| **2** | Commercial Paper | Short Term | 2,000 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |

*Source: Company, ICRA Research*

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

### Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (RS Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Commercial Paper Programme | - | - | 7-365 days | 2,000.00 | [ICRA]A1+ |
| INE976I08342 | NCD programme | Aug-4-20 | 7.22% | Aug-4-25 | 205.00 | [ICRA]AAA(stable) |
| NA^ | NCD programme | NA | NA | NA | 295.00 | [ICRA]AAA(stable) |

***Source:*** *Company; ^Yet to be placed*

### Annexure-2: List of entities considered for consolidated analysis

| Company Name | LTHL Ownership | Consolidation Approach |
|---|---|---|
| Tata Capital Limited | Parent | Full consolidation |
| Tata Capital Financial Services Limited | 100% | Full consolidation |
| Tata Capital Housing Finance Limited | 100% | Full consolidation |
| Tata Cleantech Capital Limited | 80.50% | Full consolidation |
| Tata Securities Limited | 100% | Full consolidation |
| Tata Capital Growth Fund | 73.75% | Full consolidation |
| Tata Capital Special Situation Fund | 28.18% | Full consolidation |
| Tata Capital Innovation Fund | 27.13% | Full consolidation |
| Tata Capital Growth Fund II | 14.96% | Full consolidation |
| Tata Capital Growth II General Partners LLP | 80% | Full consolidation |
| Tata Capital Healthcare Fund I | 32.12% | Full consolidation |
| Tata Capital Pte Limited | 100% | Full consolidation |

***Source:*** *TCL annual report FY2020*

ANALYST CONTACTS

**Karthik Srinivasan**
+91 22 6114 3444
karthiks@icraindia.com

**Manushree Saggar**

+91 124 4545 316

manushrees@icraindia.com

**Sandeep Sharma**
+91 22 6114 3472
sandeep.sharma@icraindia.com

**Deep Inder Singh**
+91 124 4545 830
deep.singh@icraindia.com

RELATIONSHIP CONTACT

**L. Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

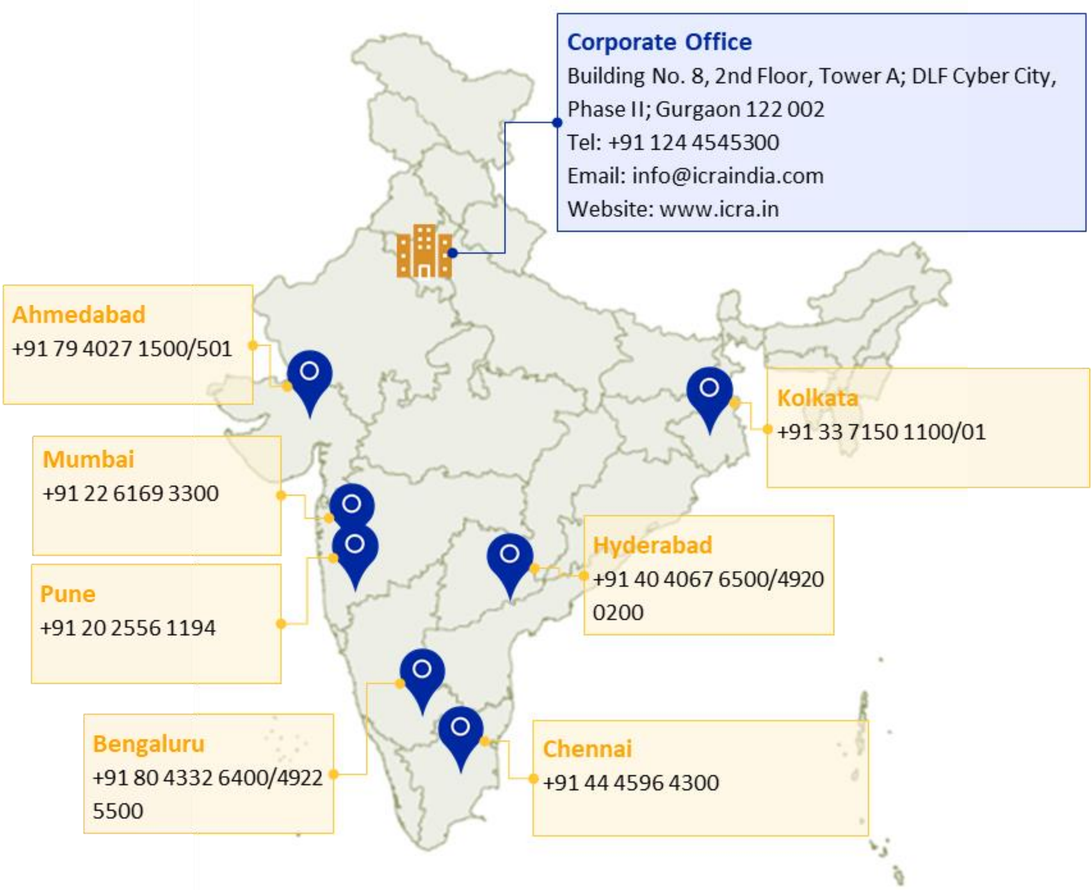
For more information, visit www.icra.in

## ICRA Limited

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

### Branches






ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.