

January 20, 2022

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 key 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 shares¹ as on September 30, 2021, 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 rating also factors in the Group's diverse product mix, higher share of the retail loan book (~54% of aggregate portfolio as on September 30, 2021), 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. ICRA also favourably notes that comfortable asset quality indicators (consolidated gross stage 3% of 2.2% as on September 30, 2021) and the healthy provision cover (67% as on September 30, 2021). ICRA has also taken note of the moderate earnings profile and relatively moderate 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. In line with the expectations, given the challenges in the operating environment due to the pandemic and impact on cashflows of borrowers, there have been some increase in delinquencies for the group, though overall asset quality indicators are still under control. ICRA also notes that the reported headline gross NPA for the company could increase following the recent clarification by the Reserve Bank of India (RBI) on IRAC norms, however the credit costs are likely to remain under control given the additional provisions carried by the company. Overall, 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.

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 September 30, 2021). 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 demonstrated support to the Tata Capital Group from TSL is also highlighted by the Rs. 2,500-crore capital infusion in FY2019 and further Rs. 1,000 crore in Q3FY2020. Any significant dilution in TSL's stake in TCL or likelihood of support from TSL or a change in TSL's credit profile could warrant a rating review for TCL.

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. 80,970 crore as on September 30, 2021 as compared to Rs. 75,806 crore as on March 31, 2021 with retail loans comprising ~54% of the aggregate portfolio as on September 30, 2021. 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 (27%) of the total combined loan book as on September 30, 2021, channel financing/bill discounting (10%), infrastructure and project loans (8%) and loan against shares (1%). 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 (18% of the total combined loan book as on September 30, 2021), home equity/loan against property (LAP; 17%), personal loans (9%), construction equipment financing (5%), auto financing (4%) and others (0.2%). While portfolio growth in medium term 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, 2021, the overall capital market borrowings stood at ~52% of the total aggregate borrowings with balance being bank loans, intercorporate deposits and preference shares. The proportion of commercial papers in the aggregate funding mix declined to ~5% as on March 31, 2021 from 10% as on March 31, 2020. ICRA takes comfort from the group's cash flow from its short-term assets which augurs well for its liquidity profile and its policy of maintaining adequate unutilised bank facilities as a liquidity.

Comfortable asset quality and healthy provision cover - Asset quality on aggregate basis improved marginally in H1FY2022 to GS3 and NS3 of 2.2% and 0.7%, respectively, on September 30, 2021 from GS3 and NS3 of 2.5% and 0.9%, respectively, on March 31, 2021, followed by a pickup in collection in Q2FY2022. At the same time, provision cover remained comfortable at 67% as on September 30, 2021 (~65% as on March 31, 2021). As on September 30, 2021, 4.3% of the aggregate AUM was restructured under various RBI schemes and performance of this book would be a key monitorable going forward. ICRA also notes that the reported headline gross NPA for the company would increase following the recent clarification by the Reserve Bank of India (RBI) on IRAC norms, however the credit costs are likely to remain under control given the additional provisions carried by the company. Overall, given the continued challenges in the operating environment and the impact of the possible third wave of Covid on cashflows of borrowers could result in some increase in delinquencies for the group by the end of FY2022, though ICRA expects the overall asset quality to remain comfortable and expects the 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. Overall, the Group's ability to arrest fresh slippages while maintaining business volumes would have a bearing on its overall financial profile and would be a key monitorable.

Credit challenges

Consolidated gearing moderate; albeit improving, stated intent of TSL to keep TCL Group adequately capitalised provides comfort - Following the capital infusion in FY2019 and FY2020, TCL's consolidated gearing declined to 7.7 times as on March 31, 2020 from 8.7 times as on March 31, 2019 (11.8 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 64%, 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 0.56 times as on March 31, 2021, against the regulatory cap of 2.5 times for a CIC. With muted portfolio growth in FY2021 and improvement in internal accruals, consolidated gearing improved to at ~6.4 times as on March 31, 2021. Gearing, nonetheless, remains relatively moderate and the group would need external capital if the growth in portfolio picks up in FY2023, to maintain prudent capitalisation levels, given the moderate internal capital generation. ICRA expects capital support from the parent to be forthcoming, as and when required given TSL's stated intent to provide regular capital support to TCL to enable it to maintain an adequate capitalisation profile.

Moderate earnings profile - In FY2021, on a consolidated basis, TCL reported a profit after tax (PAT) of Rs. 1,245 crore as compared to Rs. 156 crore in FY2019. TCL's net interest margins (NIMs) improved to 4.9% in FY2021 from 4.4% in FY2020 on account of decline in cost of funds while yields remained largely stable. Notwithstanding the high credit costs (1.7% of ATA in FY2021 and 1.7% in FY2020), higher non-interest income (1.5% of ATA in FY2021 from 1.1% in FY2020) on account of net gain on fair value changes in FY2021, decline in operating expenses (2.1% of ATA in FY2021 from 2.2% in FY2020) and lower tax rate led to improvement in the group's reported RoA and RoE to 1.5% and 12.2%, respectively, in FY2021 as compared with 0.2% and 3.4%, respectively, in FY2020. The group reported a combined (TCFSL+TCHFL+TCCL+TCL) net profit of Rs. 567 crore in H1FY2022 translating to RoA and RoE of 1.3% and 9.9% respectively². 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 December 31, 2021, total combined (TCL+TCFSL+TCHFL+TCCL) debt repayments³ till March 31, 2022 stood at Rs. 10,969 crore of which WCDL constitute ~Rs. 3,565 crore. As on December 31, 2021, combined cash and liquid investments stood at Rs. 1,505 crore. Additionally, the total sanctioned unused bank lines maintained across subsidiaries aggregating to Rs. 8,173 crore as on December 31, 2021, provides comfort over the consolidated liquidity profile of group. 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

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.

² ICRA calculations

³ Excluding ICD to group subsidiaries.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating approach - Implicit support from parent or group
Parent/Group Support	Ultimate Parent/Investor: Tata Sons Limited TCL is a majority-owned subsidiary of TSL, which held 94.55% of TCL's equity shares as on September 30, 2021. 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.
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. <i>Details are mentioned in Annexure 2.</i>

About the company

TCL is a subsidiary of Tata Sons Limited, which holds 94.55% of TCL as on September 30, 2021. 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 H1FY2022, the company reported a standalone net profit of Rs. 18 crore on a total standalone asset base of Rs. 11,491 crore as compared to a net profit of Rs. 47 crore on a total asset base of Rs. 10,514 crore in FY2021.

On a consolidated basis, TCL reported PAT of Rs. 1,245 crore on total asset base of Rs. 82,926 crore in FY2021 as compared to PAT of Rs. 156 crore on total asset base of Rs. 83,309 crore in FY2020.

Tata Sons Limited

Tata Sons Limited, founded in 1917 by the Tata Group's founder, Shri JN Tata, is the principal holding company for the Tata Group and owner of the Tata brand and associated trademark. Charitable trusts own most of Tata Sons' shareholding at 66%. While income from dividends and profit generated on 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. 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 during 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, Titan Company Limited and Tata Consumer Products Limited, among others.

Key financial indicators (audited)

Tata Capital Limited (standalone) (In Rs. Crore)	FY2019	FY2020	FY2021	H1FY2022
Dividend Income	206	169	200	91
Operating expenses	58	68	115	50
Profit after Tax	28	29	47	18
Investment Book	8,267	9,001	9,082	9,348
Leverage Ratio (times)	0.7	0.6	0.6	0.6
Return on Average Assets (%)	0.3%	0.3%	0.4%	0.3%
Return on Average Net Worth (%)	0.6%	0.5%	0.7%	0.5%

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

Tata Capital Limited (consolidated) (In Rs. Crore)	FY2019	FY2020	FY2021
Net Interest Income	2,383	3,228	3,516
Non-interest Income	1,691	823	1,256
Credit costs	665	1,412	1,398
Operating Expenses	1,994	1,803	1,704
Profit before Tax	1,415	668	1,615
Profit after Tax	1,029	156	1,245
Net Worth	8,118	9,316	10,807
Total Assets	80,925	83,309	82,926
Return on Assets (%)	1.2%	0.4%	1.5%
Return on Equity (%)	13.8%	3.4%	12.2%
Gearing (times)	8.7	7.7	6.4

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 (FY2022)				Chronology of rating history for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec-31-21 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Jan-20-22	Jan-22-21	Feb-27-20	Sep-27-19	Aug-29-18
1	Non-convertible debentures	Long Term	500	205	[ICRA]AAA (stable)	[ICRA]AAA (stable)	[ICRA]AAA (stable)	-	-
2	Commercial Paper	Short Term	2,000	700	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: Company, ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper	Very Simple
Non-convertible debentures	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details as on December 31, 2021

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
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)
NA^	Commercial Paper Programme	NA	NA	7-365 days	1,300	[ICRA]A1+
INE976I14NB0	Commercial Paper Programme	Aug-6-21	NA	Feb-3-22	200	[ICRA]A1+
INE976I14NC8	Commercial Paper Programme	Aug-11-21	NA	Jan-20-22	500	[ICRA]A1+

Source: Company; ^Yet to be placed

Annexure-2: List of entities considered for consolidated analysis

Company Name	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	28.20%	Full consolidation
Tata Capital Innovation Fund	27.69%	Full consolidation
Tata Capital Growth II General Partners LLP	80%	Full consolidation
Tata Capital Pte Limited	100%	Full consolidation

Source: Annual report FY2021

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Branches



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