December 13, 2022 (Revised)

Tata Capital Limited: Ratings reaffirmed; rated amount enhanced

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	3,000.00	[ICRA]A1+; assigned and reaffirmed
Total	**2,500.00**	**3,500.00**	

**Instrument details are provided in Annexure-I*

Rationale

Tata Capital Limited (TCL; rated [ICRA] AAA (Stable)/ [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 primarily operate in consumer loans, housing finance, vehicle finance, commercial finance, infrastructure finance and other financial service 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 the Tata Capital Group) – as these entities have significant operational and management linkages and operate under the common Tata Capital brand.

The ratings for the Tata Capital Group derive 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 March 31, 2022, and the strategic importance of the financial services business (housed under TCL and its subsidiaries) to the Tata Group. The ratings are also supported by TSL's stated intent of keeping the Tata Capital Group adequately capitalised on a consolidated basis and to continue maintaining significant ownership and management control in the company. The ratings also factor in the Group's diverse product mix, the higher share of the retail loan book (~54% of aggregate portfolio as on September 30, 2022), the strong liquidity position, with adequate cash and liquid investments, and unutilised bank lines across subsidiaries, the diversified funding profile and the financial flexibility arising from being a part of the Tata Group.

ICRA also favourably notes the comfortable asset quality indicators (consolidated gross stage 3 (GS3) of 1.9% as on September 30, 2022) and the healthy provision cover (67% as on September 30, 2022). ICRA has also taken note of the improvement in the Group's return indicators with a consolidated return on equity (RoE) of 15.2% for FY2022 (12.4% for FY2021), though the sustainability of the same would be important. The ratings also factor in the relatively moderate, albeit improving, consolidated gearing level (6.7 times as on March 31, 2022), aided by the capital support from TSL. ICRA believes that a prudent capitalisation level is one of the key mitigants against delinquencies and the other credit risks associated with the lending business and expects that support from TSL would be forthcoming, if required. 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 earnings profile.

[1] *1 Balance held by Tata Investment Corporation Limited, TCL Employee Welfare Trust and others*

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, 2022). It 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 it (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 help TCL maintain a comfortable capitalisation and liquidity profile.

ICRA also expects TSL to maintain 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 a further Rs. 1,000 crore in Q3 FY2020. A significant dilution in TSL's stake in TCL or in the 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) increased to Rs. 102,152 as on September 30, 2022 from Rs. 92,889 crore as on March 31, 2022 (Rs. 75,806 crore as on March 31, 2021) with retail loans comprising ~54% of the aggregate portfolio. The loan book is fairly diversified across various products within the wholesale and the retail lending segments. The wholesale loan book comprises corporate loans and credit substitutes and builder loans (27% of the total combined loan book as on September 30, 2022), channel financing/bill discounting (9%), infrastructure and project loans (9%) and loan against shares (1%). ICRA also notes the relatively lower credit concentration of large exposures within the wholesale book compared to its peers. The retail loan book comprises home loans (18% of the total combined loan book as on September 30, 2022), home equity/loan against property (LAP; 15%), personal loans (11%), construction equipment financing (4%), auto financing (5%) and others (0.2%). 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 from various sources. TCL's consolidated funding profile is fairly diversified with a mix of non-convertible debentures (NCDs), bank borrowings, and commercial paper. As on March 31, 2022, the overall capital market borrowings stood at ~53% of the total aggregate borrowings with bank loans, intercorporate deposits (ICDs) and preference shares accounting for the balance. The proportion of commercial paper in the aggregate funding mix remained moderate at ~8% as on March 31, 2022 (5% as on March 31, 2021). 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 liquidity backup.

Comfortable asset quality and healthy provision cover – With the pick-up in collections post Q1 FY2022, the asset quality improved on a consolidated basis in FY2022 with the GS3 and the net stage 3 (NS3) improving to 1.9% and 0.6%, respectively, as on March 31, 2022 from 2.5% and 0.9%, respectively, as on March 31, 2021. Asset quality of the company has remained stable during H1 FY2023 with GS3 and NS3 at 1.9% and 0.6%, respectively and provision cover at 67% (71% in FY2022) as on September 30, 2022. As on March 31, 2022, 3.4% of the aggregate assets under management (AUM) was restructured under various schemes of the Reserve Bank of India (RBI) and the performance of this book would be a key monitorable going forward. ICRA expects the overall asset quality to remain comfortable and expects the company to maintain a healthy provision cover to protect the balance sheet against asset quality risks though some uptick is expected, subject to the performance of the restructured book and the TCL Group's ability to control slippages. Nonetheless, the credit costs are likely to remain under control, given the additional provisions carried by the company. 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; stated intent of TSL to keep TCL Group adequately capitalised provides comfort - Strong loan book growth in FY2022 supported by good internal accruals, resulted in a marginal increase in the gearing to 6.7 times as on March 31, 2022 from 6.4 times on March 31, 2021. Gearing, nonetheless, remains moderate and the Group may need external capital if the growth in portfolio in FY2023 continues to be higher than the internal capital generation, to maintain prudent capitalisation levels, given the moderate, albeit improving 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, albeit improving - In FY2022, on a consolidated basis, TCL reported a profit after tax (PAT) of Rs. 1,801 crore compared to Rs. 1,245 crore in FY2021. TCL's net interest margins (NIMs) improved to 4.5% in FY2022 from 4.2% in FY2021 on account of a more-than-commensurate decline in the cost of funds compared to a decline in yields. Notwithstanding the increase in operating expenses (2.2% of ATA in FY2022 and 2.1% in FY2021), stable non-interest income (0.8% of ATA in FY2022 from 0.8% in FY2021) and decline in credit costs (1.2% of ATA in FY2022 from 1.7% in FY2021) led to an improvement in the Group's reported RoA and RoE to 1.9% and 15.2%, respectively, in FY2022 compared with 1.5% and 12.4%, respectively, in FY2021. Going forward, the Group's ability to maintain the profitability through controlled slippages and operating expenses will be important.

Liquidity position: Strong

The Group's liquidity profile is strong at the consolidated level. As on September 30, 2022, total combined (TCFSL+TCHFL+TCCL) debt repayments[2] stood at Rs. 22,229 crore till March 31, 2023, of which the working capital demand loan (WCDL) of Rs. 4,640 crore is expected to roll over. As on September 30, 2022, the combined cash and liquid investments stood at Rs. 5711 crore. Additionally, the total sanctioned unused bank lines maintained across subsidiaries, aggregating Rs. 10,992 crore as on September 30, 2022, provides comfort regarding the Group's consolidated liquidity profile. The Group also enjoys strong financial flexibility for mobilising long-term funding on the back of its established track record and strong parentage.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the ratings could emerge because of a deterioration in TCL's consolidated capitalisation profile on a sustained basis and/or weakening of the asset quality leading to a deterioration in solvency (NS3/Net worth >20%) on a sustained basis. A significant change in the likelihood of support from the parent or a deterioration in the parent's credit profile could warrant a rating revision.

2 Including interest; excluding ICDs 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 Rating Approach - Consolidation
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 March 31, 2022. 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. *Details are mentioned in Annexure II.*

About the company

TCL is a subsidiary of Tata Sons Limited, which holds 94.55% of TCL as on March 31, 2022. The 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. The company reported a standalone net profit of Rs. 83 crore on a total standalone asset base of Rs. 11,263 crore in FY2022 compared to a net profit of Rs. 47 crore on a total asset base of Rs. 10,514 crore in FY2021. Further for H1 FY2023, the company reported a standalone net profit of Rs. 94 crore on a total standalone asset base of Rs. 10,987 crore.

On a consolidated basis, TCL reported a PAT of Rs. 1,801 crore on total asset base of Rs. 102,386 crore in FY2022 compared to a PAT of Rs. 1,245 crore on total asset base of Rs. 82,930 crore in FY2021.

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 profits generated on sale of investments constitutes the principal revenue source for the company, it also includes royalty fees earned from the 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

Tata Capital Limited (standalone) (In Rs. Crore)	FY2020	FY2021	FY2022	H1FY2023
Dividend Income	169	200	207	92
Operating expenses	68	115	112	74
Profit after Tax	29	47	83	94
Investment Book	9,001	9,082	10,140	10,108
Leverage Ratio (times)	0.6	0.6	0.6	0.5
Return on Average Assets (%)	0.3%	0.4%	1.5%	1.7%
Return on Average Net Worth (%)	0.5%	0.7%	2.4%	2.7%

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

Tata Capital Limited (consolidated) (In Rs. crore)	FY2020	FY2021	FY2022
	Audited	Audited	Audited
Net Interest Income	3,228	3,516	4,202
Non-interest Income	823	1,256	1,162
Credit costs	1,412	1,398	1,081
Operating Expenses	1,803	1,704	2,042
Profit before Tax	668	1,615	2,348
Profit after Tax	156	1,245	1,801
Net Worth (Including Minority Interest)	9,316	10,807	12,836
Total Assets	83,309	82,930	102,386
Return on Assets (%)	0.4%	1.5%	1.9%
Return on Equity (%)	3.4%	12.4%	15.2%
Gearing (times)	7.7	6.4	6.7
Gross NPA/stage 3%	1.9%	2.5%	1.9%
Net NPA/stage 3%	0.6%	0.9%	0.6%
(Net NPA/stage 3) / Net Worth	4.5%	6.2%	4.0%

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 (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec-09-22 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Dec-13-22	Jan-20-22	Jan-22-21	Feb-27-20	Sep-27-19
1	Non-convertible debentures	Long Term	500	205	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
2	Commercial Paper	Short Term	3,000	575	[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: Click Here

Annexure-I: Instrument details as on December 9, 2022

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)
INE976I14NE4	**Commercial Paper Programme**	21-Mar-22	NA	21-Mar-23	50.00	[ICRA]A1+
INE976I14NF1	**Commercial Paper Programme**	13-Jun-22	NA	13-Jun-23	100.00	[ICRA]A1+
INE976I14NF1	**Commercial Paper Programme**	13-Jun-22	NA	13-Jun-23	25.00	[ICRA]A1+
INE976I14NG9	**Commercial Paper Programme**	11-Nov-22	NA	30-Jan-23	400.00	[ICRA]A1+
NA^	**Commercial Paper Programme**	NA	NA	7-365 days	2,425.00	[ICRA]A1+

Source: *Company; ^Yet to be placed*

Annexure-II: 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	27.79%	Full consolidation
Tata Capital Growth Fund II	34.02%	Full consolidation
Tata Capital Healthcare Fund I	32.17%	Full consolidation
Tata Capital Healthcare Fund II	19.86%	Full consolidation
Tata Capital Pte Limited	100%	Full consolidation

Source: *Annual report FY2022; *By TCL*

Corrigendum

Updated the link for “Rating Approach-Consolidation” in the analytical approach section on page 4.

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