August 18, 2023

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	0.00	1,000.00	[ICRA]AAA (Stable); assigned
NCD programme	500.00	500.00	[ICRA]AAA (Stable); reaffirmed
Commercial Paper Programme	3,000.00	3,000.00	[ICRA]A1+; reaffirmed
Total	**3,500.00**	**4,500.00**	

**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, 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 factor in the Group's diverse product mix, the higher share of the retail loan book (~54% of aggregate portfolio as on March 31, 2023), the strong liquidity position, 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) and net stage 3 (NS3) of 1.7% and 0.4%, respectively, as on March 31, 2023) and the healthy provision cover (77% as on March 31, 2023). ICRA has also taken note of the improvement in the group's return indicators with a consolidated return on average assets (RoA) of 2.5% for FY2023 (1.9% for FY2022), though the sustainability of the same would be important. The ratings also factor in the relatively moderate, albeit improving, capitalisation profile (consolidated gearing of 6.2 times as on March 31, 2023), 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, if required, would be forthcoming considering the growth plans of the group. 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.

The ratings for TCL group continue to draw significant strength from its parentage, Tata Sons Limited (TSL; rated [ICRA]AAA (Stable)/[ICRA]A1+), which owned 94.6% of TCL's equity shares on June 30, 2023, 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.

ICRA has also taken note of the proposed scheme of arrangement for merger of TCFSL (wholly owned subsidiary) and TCCL (majorly owned subsidiary) with TCL. This scheme of arrangement is, inter alia, subject to the sanction of the National Company Law Tribunal ("NCLT"), requisite approvals of the shareholders and/or creditors of the Company, as directed by the NCLT, receipt of regulatory approvals. On August 8, 2023, the competition commission of India had approved the aforementioned scheme. The proposed merger is unlikely to impact the credit profile and ratings of TCL, TCFSL, TCCL and TCHFL, as while arriving at the ratings, ICRA has already been considering the consolidated performance of TCL and its finance subsidiaries, as these entities have significant operational and management linkages and operate under the common Tata Capital brand. ICRA will continue to monitor the developments on the merger and consequent impact on business plans of the entity, if any.

Key rating drivers and their description

Credit strengths

Strong parentage and strategic importance to the Group; supports financial flexibility – TCL is a majority-owned subsidiary of TSL. 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. 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. 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, Rs. 1,000 crore in Q3 FY2020 and Rs. 594 crore in Q4FY2023 by subscribing to the rights issue of equity of TCL. 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) grew by 29% to Rs. 119,573 as on March 31, 2023 from Rs. 92,889 crore as on March 31, 2022 driven by growth in home loan and personal loan/business loan amongst other segments, consequently the share of retail loans increased to ~54% of the aggregate portfolio on March 31, 2023 from 52% on March 31, 2022. The loan book has further grown by ~6% (quarter-on-quarter) in Q1FY2024. The loan book is fairly diversified across various products within the wholesale and the retail lending segments. The retail loan book comprises of home loans (18% of the total combined loan book as on March 31, 2023), home equity/loan against property (LAP; 14%), personal loans (12%), construction equipment financing (4%), auto financing (5%) and microfinance (0.4%). The wholesale loan book comprises of corporate loans and credit substitutes and builder loans (25% of the total combined loan book as on March 31, 2023), channel financing/bill discounting (10%), infrastructure and project loans (9%) and loan against securities (1%). ICRA also notes the relatively lower credit concentration of large exposures within the wholesale book compared to its peers. The loan book is expected to remain well diversified across products and borrower/Group-level exposures.

Comfortable asset quality and healthy provision cover – High loan book growth and controlled slippages resulted in improvement in the asset quality improved on a consolidated basis in FY2023 with the GS3 and the NS3 improving to 1.7% and 0.4%, respectively, as on March 31, 2023 from 1.9% and 0.6%, respectively, as on March 31, 2022 and provision cover at 77% on March 31, 2023 (71% as on March 31, 2022). Further, asset quality remained comfortable in Q1FY2024 with GS3 and NS3 improving to 1.5% and 0.4%, respectively, and provision cover of 73% as on June 30, 2023. 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. 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.

Adequate earnings profile - In FY2023, on a consolidated basis, TCL reported a profit after tax (PAT) of Rs. 2,946 crore compared to Rs. 1,801 crore in FY2022. TCL's net interest margins (NIMs) remained stable at 4.5% in FY2023 (4.5% on FY2022) due to commensurate increase in yields compared to increase in the cost of funds, however, better than the 5 year average of 4.1%. Further, decline in credit costs (0.5% of ATA in FY2023 from 1.2% of ATA in FY2022) due to controlled slippages, stable operating expenses (2.2% of ATA in FY2023 and 2.3% in FY2022), stable non-interest income (0.7% of ATA in FY2023 from 0.8%

in FY2022) led to an improvement in the Group's reported average RoA to 2.5% in FY2023 compared with 1.9% in FY2022. Further, the company reported a consolidated PAT of Rs. 725 crore in Q1FY2024 compared to PAT of Rs. 463 crore in Q1FY2023. Going forward, increase in share of business loan/personal loan and microfinance business could bode well for the profitability profile. The Group's ability to grow the loan book while maintaining the improved profitability profile through controlled slippages and operating expenses will be a key rating monitorable.

Credit challenges

Moderate capitalisation profile; stated intent of TSL to keep TCL Group adequately capitalised provides comfort - Capital infusion of Rs. 594 crore by TSL in Q4FY2023 through rights issue, good internal accruals strengthened the net worth to Rs. 18,149 crore as on March 31, 2023 from Rs. 12,836 as on March 31, 2022, consequently, despite the strong loan book growth in FY2023 the gearing declined to 6.2 times on March 31, 2023 from to 6.7 times as on March 31, 2022. Gearing, nonetheless, remains moderate and the group may need external capital if the growth in portfolio in FY2024 is higher than the internal capital generation, to maintain prudent capitalisation levels. 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.

On a standalone basis, TCL's net worth stood at Rs. 10,111 crore as on March 31, 2023 with a capital adequacy ratio (adjusted net worth/risk-weighted assets) of 61%, which is significantly above the regulatory requirement of 30% for a core investment company (CIC). The company also had a comfortable standalone leverage ratio of 0.6 times, as on March 31, 2023, against the regulatory cap of 2.5 times for a CIC.

Liquidity position: Strong

The Group's liquidity profile is strong at the consolidated level. As on June 30, 2023, total combined (TCFSL+TCHFL+TCCL+TCL) debt repayments[1] stood at Rs. 21,246 crore till September 30, 2023, of which majority of the working capital demand loan (WCDL) of Rs. 5,215 crore is expected to roll over. As on June 30, 2023, the combined cash and liquid investments stood at Rs. 3,613 crore. 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 (aggregating Rs. 11,531 crore as on July 31, 2023). 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.

1 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 94.6% of TCL's equity shares as on June 30, 2023. 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 94.6% of TCL as on March 31, 2023. 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. 720 crore on a total standalone asset base of Rs. 15,163 crore in FY2023 compared to a net profit of Rs. 83 crore on a total asset base of Rs. 11,263 crore in FY2022.

On a consolidated basis, TCL reported a PAT of Rs. 2,946 crore on total asset base of Rs. 135,562 crore in FY2023 compared to a PAT of Rs. 1,801 crore on total asset base of Rs. 102,376 crore in FY2022.

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)	FY2021	FY2022	FY2023
Dividend Income	200	207	134
Operating expenses	115	112	156
Profit after Tax	47	83	721
Investment Book	9,082	10,140	14,598
Leverage Ratio (times)	0.6	0.6	0.6
Capital Adequacy ratio	61%	64%	61%
Return on Average Assets (%)	0.4%	1.5%	5.5%
Return on Average Net Worth (%)	0.7%	2.4%	8.4%

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

Tata Capital Limited (consolidated) (In Rs. crore)	FY2021	FY2022	FY2023
	Audited	Audited	Audited
Total Income	9,988	10,311	13,637
Profit after Tax	1,245	1,801	2,946
Net Worth (Including Minority Interest)	10,807	12,836	18,149
Total Assets	82,930	102,376	135,562
Return on Assets (%)	1.5%	1.9%	2.5%
Return on Equity (%)	12.4%	15.2%	19.0%
Gearing (times)	6.4	6.7	6.2
Gross NPA/stage 3%	2.5%	1.9%	1.7%
Net NPA/stage 3%	0.9%	0.6%	0.4%
(Net NPA/stage 3) / Net Worth	6.2%	4.0%	2.6%

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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul-23 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Aug-18-23	Mar-31-23 Feb-21-23	Dec-13-22	Jan-20-22	Jan-22-21
1	**Non-convertible debentures**	Long Term	500	205	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	**Non-convertible debentures**	Long Term	1,000	0	[ICRA]AAA (Stable)	-	-	-	-
3	**Commercial Paper**	Short Term	3,000	990	[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 July 31, 2023

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^	NCD programme	NA	NA	NA	1,000.00	[ICRA]AAA(Stable)
INE976I14NK1	Commercial Paper Programme	16-Dec-22	NA	15-Dec-23	100	[ICRA]A1+
INE976I14NL9	Commercial Paper Programme	19-Dec-22	NA	19-Dec-23	75	[ICRA]A1+
INE976I14NP0	Commercial Paper Programme	19-Jun-23	NA	18-Jun-24	75	[ICRA]A1+
INE976I14NQ8	Commercial Paper Programme	23-Jun-23	NA	22-Sep-23	300	[ICRA]A1+
INE976I14NR6	Commercial Paper Programme	28-Jun-23	NA	27-Sep-23	140	[ICRA]A1+
INE976I14NT2	Commercial Paper Programme	30-Jun-23	NA	14-Sep-23	125	[ICRA]A1+
INE976I14NS4	Commercial Paper Programme	30-Jun-23	NA	28-Jun-24	25	[ICRA]A1+
INE976I14NS4	Commercial Paper Programme	5-Jul-23	NA	28-Jun-24	75	[ICRA]A1+
INE976I14NU0	Commercial Paper Programme	10-Jul-23	NA	9-Jul-24	75	[ICRA]A1+
NA^	Commercial Paper Programme	NA	NA	7-365 days	2,010	[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 FY2023; *By TCL*

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