September 27, 2017

Tata Capital Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	2,000	[ICRA]A1+; assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 2,000 crore commercial paper programme of Tata Capital Limited (TCL)1.

Rationale

The rating factors in the strategic importance of TCL to its parent Tata Sons Limited (TSL; rated [ICRA]AAA(stable)/[ICRA]A1+) which owns 93.22% stake in the company. TCL's rating is also strongly linked to the expectation of continued support from TSL, which in the past has included access to capital, management and systems, and supervision by a strong board. ICRA expects the company to maintain comfortable capitalisation levels given the strong commitment of TSL to support the Group's financial services businesses. TCL holds strategic equity stakes in various non-listed Group companies including Tata Capital Financial Services Limited (TCFSL, rated [ICRA]AA+(stable)/[ICRA]A1+), Tata Capital Housing Finance Limited (TCHFL, rated [ICRA]AA+(stable)/[ICRA]A1+) and Tata Cleantech Capital Limited (TCCL, rated [ICRA]A1+).

By virtue of being a core investment company (CIC), TCL is dependent on dividend income from its subsidiaries and capital gains from sale of its investments in private equity funds to meet its debt obligations and operating expenses. ICRA also takes note of the fact that a considerable proportion of TCL's borrowings as on June 30, 2017 are maturing in the next one year and would need to be refinanced. ICRA draws comfort from the financial flexibility that TCL enjoys by being a part of the Tata Group and its ability to raise long term funding at competitive rates, and also expects the support from the parent to be forthcoming as and when required.

Key rating drivers

Credit strengths

- **Strong parentage and strategic importance to the Group:** TSL holds a 93.22% stake in TCL. 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) provides funding support to various entities in the Tata eco-system. Any dilution in the expected support from the Group to TCL or change in the credit profile of its parent would be a key rating sensitivity.
- **Significant value of investments in subsidiaries:** TCL holds strategic equity stakes in various non-listed group companies including TCFSL, TCHFL and TCCL. The total book value of investments in these three subsidiaries was over Rs. 5,000 crore as on March 31, 2017. Apart from the key subsidiaries, TCL also holds stakes in some other operating companies of the Group.

[1] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

ICRA

- **Good capitalisation and strong liquidity profile:** As on March 31, 2017, TCL had a strong standalone net worth of Rs. 3,252 crore with a capital adequacy ratio of 43.38% (significantly above the regulatory requirements of 30% for a CIC) and a comfortable gearing of 0.75 time (as against the regulatory limit of 2.5 times for a CIC). Further, by virtue of being a part of the Tata Group, TCL enjoys considerable financial flexibility to raise long term funding at competitive rates and also receives support from the parent in case of need.

Credit weaknesses

- **High refinancing risk with a large proportion of borrowings maturing within one year:** Considerable proportion of the long term borrowings (including compulsorily redeemable preference shares) of TCL as on June 30, 2017 will mature within one year, exposing the company to refinance risk. However, TCL enjoys strong commitment from the Tata Group and ICRA expects Group support to continue going forward as well. TCL has also extended inter-corporate loans outstanding to group companies which are callable on demand and can be used in case of any liquidity requirement.
- **Dependence on cash flows from subsidiaries:** Being a CIC, TCL derives a majority of its income from dividend on shares in subsidiaries and the interest from inter-corporate loans. It also earns income from sale of investments and managerial and advisory fees from its private equity business. The company is highly dependent on these cash flows to service the interest on borrowings and preference dividend on cumulative redeemable preference shares.
- **Moderate profitability indicators:** With only two of its subsidiaries currently paying dividends (TCFSL and TCHFL) and limited income from other sources, TCL's profitability is moderate with return of average asset and return on average net worth at 0.66% and 1.30% during FY2017. However, as the other subsidiaries become profitable and start distributing dividends, the profitability indicators are expected to improve.
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Analytical approach:
For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria
ICRA's Credit Rating Methodology for Non-Banking Finance Companies
ICRA's Approach for Rating Commercial Papers

About the company

Primal Investments and Finance Limited was established in March 1991 and the name was changed to Tata Capital Limited (TCL) in May 2007. TCL is a subsidiary of Tata Sons Limited and as on March 31, 2017, TSL had a 93.22% shareholding in TCL. TCL is registered as Core Investment Company (CIC) and is the holding company for the various financial services of the Group including Tata Capital Financial Services Limited, Tata Capital Housing Finance Limited and Tata Securities Limited. TCL also holds strategic and private equity investments. For FY2017, the company (on a standalone basis) reported a profit after tax of Rs. 180.16 crore and had a total asset base of Rs. 6,703.04 crore. The company's loan book (inter-corporate loans to group companies) stood at Rs. 617 crore and its investment book at Rs. 5,918 crore as on March 31, 2017.

During Q1FY2018, TCL's total income stood at Rs. 52.87 crore which was mainly derived from interest income and managerial and advisory fees from its private equity business

About Tata Sons Limited

Tata Sons Limited (TSL), founded in 1917 by the Tata Group's founder, Shri J N Tata, is the principal holding company for the Tata Group and owner of the Tata brand and associated Tata trademarks. Charitable trusts, including those endowed by the late Sir Dorabji Tata, own 66% of TSL's shareholding. While income from dividends and profit generated on sale of investments constitute the principal revenue source for the company, it also earns royalty fees from group companies for using the Tata brand. Such fees however are largely spent on the management of the brand. TSL also provides certain group level services to the Tata companies, key among them being facilitating business excellence within the Group by conducting trainings, legal assistance and HR services. Tata Consultancy Services division (TCS, one of the largest software companies in India and the highest contributor to TSL in terms of revenues and profits) was spun-off as a separate entity during FY2005. Currently, TSL's equity investments are spread across seven major industry segments and include investments in Tata Consultancy Services Limited, Tata Steel Limited, Tata Power Company Limited, Tata Motors Limited, Tata Chemicals Limited, Tata Teleservices Limited, and Tata Global Beverages Limited.

Key Financial Indicators (Audited)

For the Financial Year	**FY2016**	**FY2017**
Net Interest Income	(110.04)	160.74)
Dividend Income	175.88	183.83
Other Income	77.64	145.18
Total Expenses	104.24	116.31
Profit after Tax	152.80	180.16
Loan Book (Inter-corporate loans to group companies)	1,011	617
Investment Book	5,138	5,918
Capital Adequacy Ratio	46.33%	43.38%
Leverage Ratio	0.75	0.75
Return on Average Assets	0.53%	0.66%
Return on Average Net Worth	0.94%	1.30%

Amounts in Rs. crore
Source: TCL; ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

Sr. No.	Instrument	Current Rating (FY2018)			Chronology of rating history for the past 3 years		
		Type	Rated amount (Rs. crore)	September 2017	FY2017 (April 2016)	FY2016	FY2015
1	Commercial Paper Programme	Short Term	2,000	[ICRA] A1+; assigned	[ICRA] A1+; withdrawn	[ICRA] A1+	[ICRA] A1+
2	Non-Convertible Debenture Programme	Long Term	-	-	[ICRA] AA+ (Stable); withdrawn	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)
3	Subordinated Debt Programme	Long Term	-	-	[ICRA] AA+ (Stable); withdrawn	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)
4	Bank Lines	Short Term	-	-	[ICRA] AAA(stable)/ [ICRA]A1+; withdrawn	[ICRA] AAA(stable)/ [ICRA]A1+	[ICRA] AAA(stable)/ [ICRA]A1+

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 www.icra.in

Annexure-1

Details of Instrument

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
Commercial Paper Programme	NA	NA	7-365 days	2,000.00	[ICRA]A1+

Source: TCL

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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.

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