ICRA

Tata Capital Limited

August 29, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Total	**2,000.00**	**2,000.00**	

*Instrument details are provided in Annexure-1

Rating action

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

For the purpose of this rating, ICRA has analysed the business and financial risk profiles of TCL and its key subsidiaries, Tata Capital Housing Finance Limited (TCHFL; rated [ICRA]AAA(Stable)/[ICRA]A1+), Tata Capital Financial Services Limited (TCFSL; rated [ICRA]AAA(Stable)/[ICRA]A1+), and Tata Cleantech Capital Limited (TCCL; rated [ICRA]A1+) as these entities have significant operational and management linkages and operate under the common Tata Capital brand. Furthermore, a significant proportion of TCL's earnings (on a consolidated basis) are accounted for by its three main subsidiaries - TCFSL, TCHFL and TCCL.

Rationale

The rating for TCL derives significant strength from the company's parent, Tata Sons Limited (TSL, rated [ICRA]AAA(Stable)/[ICRA]A1+), which has a 93.22% stake in TCL. Over the years, the strategic importance of the financial services businesses (housed in TCL and its subsidiaries) has increased for TSL. Consequently, the extent and likelihood of further support to TCL from TSL has gone up. The same has also been demonstrated by the recent equity infusion of Rs. 1,250 crore by TSL into TCL, with another Rs. 1,250 crore committed to be infused in the current fiscal. ICRA believes the prudent capitalisation levels is one of the key mitigants against the delinquencies and other credit risks associated with the lending business. Being a core investment company (CIC), TCL is dependent on dividend income from the subsidiaries and capital gains from the sale of investments in the private equity funds to meet its debt obligations and operating expenses. ICRA has also taken note of the fact that a considerable proportion of TCL's borrowings, as on March 31, 2018, are maturing in the next one year and would need to be refinanced. However, with the recent equity infusion of Rs. 1,250 crore and the committed capital infusion of an additional Rs. 1,250 crore, the refinancing risk is mitigated to some extent. Nevertheless, ICRA draws comfort from the financial flexibility enjoyed by TCL by being a part of Tata Group and its ability to raise long-term funding at competitive rates. ICRA also expects that support from TSL would be available at all times, which would enable TCL to meet all its obligations in a timely manner, in case of any shortfalls.

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

Outlook: Not applicable

Key rating drivers

Credit strengths

Strong parentage and strategic importance to the Group - TSL has 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 ecosystem. Any dilution in the expected level of support to TCL or change in the parent's credit profile would be a key rating sensitivity.

Significant value of investments in subsidiaries - TCL holds strategic investments in the form of equity and compulsorily convertible cumulative preference shares in TCFSL, TCHFL and TCCL. The total book value of the investment in these three subsidiaries was over Rs. 6,000 crore as on March 31, 2018. ICRA expects TCL to continue holding strategic investments in Group companies and provide capital support to them as and when the need arises.

Good capitalisation and strong liquidity profile - As on March 31, 2018, TCL had a strong net worth of Rs. 3,291 crore (standalone basis) with a capital adequacy ratio of 41.48%, significantly above the regulatory requirement of 30% for CICs and a comfortable leverage ratio of 0.85 times (against the regulatory requirement of maximum 2.5 times for CICs). On a consolidated basis across the lending entities (TCFSL, TCHFL and TCCL), the leverage was moderate at 7.3 times as on March 31, 2018 and is expected to remain at similar levels over the medium term. ICRA believes the prudent capitalisation levels is one of the key mitigants against the delinquencies and other credit risks associated with the lending business. ICRA expects the company to remain adequately capitalised as it continues to expand its portfolio given the strong capital commitment from its parent. Further, being a part of Tata Group, TCL enjoys considerable financial flexibility to raise long-term funding at competitive rates. Moreover, support is expected from the parent at all times, which would enable TCL to meet all its obligations in a timely manner, in case of any shortfalls.

Credit challenges

High refinancing risk given large proportion of borrowings maturing within a year - A considerable proportion of TCL's long-term borrowings (including compulsorily redeemable preference shares) as on March 31, 2018 will be maturing within a period of one year, thereby exposing the company to refinancing risks. However, with the recent equity infusion of Rs. 1,250 crore and the committed capital infusion of an additional Rs. 1,250 crore, the risk is mitigated to some extent. Also, TCL has received strong support from Tata Group so far and ICRA expects the support to continue, going forward as well. Further, TCL has extended inter-corporate loans to Group companies, which are callable on demand, and hence can be used in case of any stress on the company's liquidity profile.

Dependence on cash flows from subsidiaries - TCL, being a CIC, derives most of its income from the dividend on shares in subsidiaries (which are largely dependent on the performance of the subsidiary) and the interest received on inter-company loans. It also earns some income from the sale of investments and managerial and advisory fees from its private equity business. The company is highly dependent on these sources of cash flow to pay its interest expenses 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 given the limited interest income on inter-corporate loans and other fee-based income, TCL's profitability is moderate with return on average assets and return on average net worth at 0.65% and 1.38%, respectively, during FY2018.

However, as the other subsidiaries scale up their businesses and become profitable and start paying dividends, the profitability indicators are expected to improve.

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

About the company

TCL is a subsidiary of Tata Sons Limited, which holds 93.22% of the company. TCL is registered as a core investment company and is the holding company for various financial services of the Group including TCFSL, Tata Capital Housing Finance Limited and Tata Securities Limited. TCL also holds strategic and private equity investments. For FY2018, the company reported a net profit of Rs. 201.78 crore on a total asset base of Rs. 7,278.34 crore compared to a net profit of Rs. 180.16 crore on a total asset base of Rs. 6,703.04 crore in FY2017.

Tata Sons Limited

Tata Sons Limited (TSL), founded in 1917 by Tata Group's founder, Shri J N Tata, is the principal holding company for Tata Group and the 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 shares. While income from dividends and profit generated on the sale of investments are the principal revenue sources for the company, it also earns royalty fees from Group companies for using the Tata brand. 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 - TCL (Audited)

	FY 2017	FY 2018
Net Interest Income	-23.65	-56.62
Dividend Income	183.83	232.61
Other Income	145.18	159.55
Total Expenses	116.31	131.57
Profit after Tax	180.16	201.78
Total Loan Book	617.21	337.84
Investment Book	5,917.97	6,778.15
Capital Adequacy Ratio	43.38%	41.48%
Leverage Ratio	0.75	0.85
Return on Average Assets	0.66%	0.65%
Return on Average Net Worth	1.30%	1.38%

Amount in Rs. crore
Source: TCL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Aug 2018	FY2018 Sep 2017	FY2017 Apr 2017	FY2016 Apr 2016
1	Commercial Paper	Short Term	2,000	-	[ICRA] A1+	[ICRA] A1+	-	[ICRA]A1+; withdrawn
2	Non-convertible debentures	Long Term	-	-	-	-	-	[ICRA]AA+; withdrawn
3	Subordinate debt	Long Term	-	-	-	-	-	[ICRA]AA+; withdrawn
4	Bank lines	Long Term / Short Term	-	-	-	-	-	[ICRA]AA+/[ICRA]A1+; withdrawn

Source: 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 www.icra.in

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+

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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