September 27, 2019

Tata Capital Limited: Rating reaffirmed

Summary of rating action

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

Rationale

Tata Capital Limited (TCL) is a holding company with a diversified presence in 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 financing, commercial finance, infrastructure finance and other financial services businesses. While arriving at the rating for TCL, ICRA has considered the business and financial risk profiles of Tata Capital Limited (TCL, rated [ICRA]A1+) and its subsidiaries together as these entities have significant operational and management linkages and operate under the common Tata Capital brand.

The ratings for Tata Capital Limited (TCL) derive significant strength from its parentage, Tata Sons Limited (TSL; rated [ICRA]AAA(Stable)/[ICRA]A1+), which owns 94.23% equity shares[1] of TCL as on March 31, 2019 and strategic importance of the financial services business (housed under TCL and its subsidiaries) to Tata Group. The rating is also supported by TSL's stated intent to keep TCL adequately capitalized on consolidated basis and also to continue maintaining significant ownership and management control in TCL. The importance of Tata Capital group to TSL is also highlighted through the Rs. 2,500 crore capital infusion in FY2019. The ratings also factor in the group's diverse product mix and higher share of retail loan book, diversified funding profile and financial flexibility arising being a part of Tata Group, improvement in asset quality indicators and healthy provision cover. The credit strengths are partially offset by the relatively high level of consolidated gearing level and moderate earnings profile. However, TSL's Stated intent to keep TCL and its subsidiaries adequately capitalised provides comfort. ICRA believes the prudent capitalisation level is one of the key mitigants against the delinquencies and other credit risks associated with the lending business.

Key rating drivers

Credit strengths

Strong parentage and strategic importance to the Group - TCL is majority owned subsidiary of TSL with TSL owning 94.23% equity shares of TCL as on March 31, 2019. 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) is the primary financial services lending arm for Tata group. Given the importance of the financial services business to Tata Group and TSL's stated intent to keep TCL adequately capitalized on consolidated basis, ICRA expects TSL to continue to provide financial support to enable TCL to maintain comfortable capitalization profile and also to continue maintaining significant ownership and management

[1] *Balance stake held by Tata Investment Corporation Limited (2.32%), TCL Employee Welfare Trust (1.51%) and Others (1.94%).*

control in TCL. The importance of Tata Capital group to TSL is also highlighted through the Rs. 2,500 crore capital infusion in FY2019. Any dilution in importance of TCL for TSL or in the expectation of support from TSL or change in TSL's credit profile would be a key rating sensitivity.

Diverse product mix; higher share of retail portfolio - Total AUM (on a combined basis for TCFSL+TCHFL+TCCL) grew by ~25% to ~Rs. 75,926 crore as on March 31, 2019 from Rs. 60,499 crore as on March 31, 2018 with retail loans comprising ~60% of consolidated portfolio as on March 31, 2019. The combined loan book is fairly diversified across various products in wholesale and retail lending. Wholesale loan book comprised of corporate loans and credit substitutes and builder loans (20% of total combined loan book), channel financing (12%), infrastructure and project loans (7%) and loan against shares (1%) as on March 31, 2019. During FY2019, the wholesale loan book grew by 31% driven by growth in corporate lending and project loans. ICRA also notes the relatively lower credit concentration of large exposures within wholesale book vs. peers. Retail loan book comprised home loans (24% of total combined loan book), home equity/LAP (16%), personal loans (8%), construction equipment financing (5%), auto financing (4%) and others (2%). During FY2019, retail book grew by 22% driven by growth across segments. While ICRA expects portfolio growth to moderate from the level seen in FY19, loan book is expected to remain well diversified across products and borrower / group level exposures.

Diverse borrowing profile and good financial flexibility- Tata Capital group enjoys good financial flexibility, being a part of Tata Group, with access to funds at competitive rates of interest and from various sources. The consolidated funding profile of TCL is fairly diversified with a mix of non-convertible debentures, bank borrowings, and commercial paper. As on March 31, 2019, overall capital market borrowings stood at about ~51% of total borrowings. The proportion of commercial papers in the overall funding mix declined to ~14% as on March 31, 2019 (18% as on March 31, 2018). ICRA takes comfort from the company's cash flow from its short-term assets and policy of maintaining adequate unutilised bank facilities as a liquidity backup.

Comfortable asset quality and healthy provision cover - On a combined basis, TCL's asset quality indicators improved with reported gross non-performing assets (NPAs) and net NPAs of 1.75% and 0.36% respectively as on March 31, 2019 as against 2.43% and 0.72% respectively as on March 31, 2018. There has been an improvement in the asset quality indicators for the group, with NPAs steadily declining over the last 4 years owing to increased write-offs, controlled fresh slippages and expansion of the overall loan book. Overall provision cover was healthy at 80% as on March 31, 2019. Group's consolidated stage-2 assets were also under control at 2.32% of gross advances as on March 31, 2019. Going forward, ICRA expects the overall asset quality to remain comfortable, albeit some uptick is possible on account of increasing vulnerability of the loan book owing to stress in some of the key lending segments and limited portfolio seasoning, given the steep growth witnessed in the past few years. ICRA however expects the company to maintain healthy provision cover in the near to medium term which would help strengthen the balance sheet against asset quality risks. Going forward, the company's ability to manage asset quality profile would remain a key rating sensitivity.

Credit challenges

Consolidated gearing remains relatively high however stated intent of TSL to keep TCL group's capitalisation adequate provides comfort - On a consolidated basis for TCL, the capitalisation profile is supported by demonstrated financial support by the parent reflected in latest capital infusion of Rs. 2,500 crore during FY2019 and stated intent of TSL to provide regular capital support to TCL to enable it to maintain adequate capitalization profile. As a result of the capital infusion in FY19, TCL's consolidated gearing declined to 8.67 times as on March 31, 2019 from 11.75 times as on March 31, 2018. The gearing, nonetheless, remains at a relatively high level on consolidated basis as compared to peers. ICRA expects financial support from the parent in the future to further reduce the gearing level in the medium term. TCL's capital adequacy on standalone basis remains comfortable with a capital adequacy ratio of 61%, significantly above the regulatory requirement of 30% for CICs and a comfortable leverage ratio of 0.74 times (against the regulatory requirement of maximum 2.5 times for CICs). Regulatory capital adequacy for three key subsidiaries of the group remains comfortable with CAR and Tier 1 of TCFSL at 16.84% and 12.11% respectively, TCHFL at 16.24% and 11.94% respectively and TCCL at 16.10% and 15.70% respectively as on March 31, 2019. ICRA believes the prudent capitalisation level is one of the key mitigants against the delinquencies and other credit risks associated with the lending business. Given the strategic importance of Tata Capital Limited to Tata Group, ICRA expects capital support from the parent to be forthcoming to keep TCL and its subsidiaries adequately capitalised.

Moderate earnings profile - TCL's consolidated profitability remains moderate as reflected in return on assets (RoA) of 1.39% in FY2019 and 1.12% in FY2018. The group profitability was moderate largely on account of higher operating expenses and higher credit costs and increased competition in key lending segments. TCL's net interest margins (NIMs) declined to 2.82% in FY2019 from 3.17% in FY2018 on account of tightened liquidity environment. Profitability during FY2019 supported by significant gains from derecognition of investment in associates and fair value changes. However, despite higher credit costs (0.90% in FY2019 from 0.55% during FY2018) and increase in operating expenses (2.31% in FY2019 from 2.10% during FY2018), the company reported return on assets (RoA) and return on equity (RoE) of 1.39% and 17.42%, respectively, during FY2019 as compared with 1.12% and 17.19%, respectively, during FY2018. ICRA expects TCL's profitability to improve over medium term with scaling up of operations and TCL's focus on better yielding assets. Going forward, TCL'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 strong bearing on its earning profile.

Liquidity Position: Strong

The liquidity profile of the group is strong at a consolidated level. Total combined (TCL+TCFSL+TCHFL+TCCL) debt repayment obligations for September 2019 to November 2019 stood at Rs. 10,400 crore. As on August 28, 2019, cash and liquid investments stood at Rs. 5,231 crore. Additionally, the total sanctioned unused bank lines maintained across subsidiaries aggregating to Rs. 2,851 crore as on July 31, 2019 and expected inflows of ~Rs. 12,500 crore during September 2019 to November 2019 provides comfort over the consolidated liquidity profile of group. TCL also enjoys strong financial flexibility to mobilise long term funding on the back of its established track record and strong parentage.

Rating Sensitivities

Negative triggers - Significant reduction in stake of TSL in TCL, change in support from parent (TSL) or deterioration in credit profile of TSL could warrant a rating downgrade. Negative pressure on rating could arise if, there is a deterioration in asset quality with consolidated Gross NPA remaining above 5% on sustained basis or deterioration in consolidated capitalization profile of TCL on sustained basis.

Analytical Approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Ultimate Parent/Investor: Tata Sons Limited TCL is majority owned subsidiary of TSL with TSL owning 94.23% equity shares of TCL as on March 31, 2019. 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) is the primary financial services lending arm for 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 mentioned in Annexure 2*

About the company

TCL is a subsidiary of Tata Sons Limited, which holds 94.23% of TCL. 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 FY2019, the company reported a standalone net profit of Rs. 27.53 crore on a total standalone asset base of Rs. 9,573 crore against a net profit of Rs. 36.56 crore on a total asset base of Rs. 7,279.12 crore in FY2018.

On a consolidated basis, TCL reported PAT of Rs. 1,029 crore in FY19 on total asset base of Rs. 82,644 crore vs. PAT of Rs. 678 crore in FY18 on total asset base of Rs. 65,213 crore.

About Tata Sons Limited

Tata Sons Private 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. Tata Sons also provides certain Group level services to Tata companies, key among them being facilitating business excellence within the Group by conducting training programmes (through Tata Quality Management Services), legal assistance and human resource (HR) services. 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, TTSL and Tata Global Beverages Limited, among others.

Key financial indicators –TCL (Standalone)

	FY 2018	FY 2019
Dividend Income	232.61	205.71
Operating Income	113.47	83.27
Operating expenses	132.90	295.72
Other Income	62.81	280.84
Profit after Tax	36.56	27.53
Total Loan Book	338.25	581.76
Investment Book	6,779.82	8,266.94
Capital Adequacy Ratio	41.00%	61.00%
Leverage Ratio	0.85	0.74
Return on Average Assets	0.52%	0.33%
Return on Average Net Worth	1.11%	0.60%

Amount in Rs. crore

Source: TCL, ICRA research

Key financial indicators-TCL (consolidated)

	FY 2018	FY 2019
Net Interest Income	1,918	2,087
Non-Interest Income	735	1,641
Operating expenses	1,271	1,705
Profit Before Tax	1,045	1,358
Profit After Tax	678	1,029
Net Worth	4,799	8,118
Total Assets	64,397	81,826
Return on Assets	1.12%	1.39%
Return on Equity	17.19%	17.42%
Gearing (times)	11.75	8.67

Amount in Rs. crore; Source: TCL, ICRA research; as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2019 (Rs. crore)	27-Sep-19	FY2019	FY2018	FY2017
						29-Aug-18	27-Sep-17	4-May-16
1	Commercial Paper	Short Term	2,000	528.62	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA]A1+; withdrawn
2	Non-convertible debentures	Long Term	-	-	-	-	-	[ICRA]AA+(stable); withdrawn
3	Subordinate debt	Long Term	-	-	-	-	-	[ICRA]AA+(stable); withdrawn
4	Bank lines	Long Term / Short Term	-	-	-	-	-	[ICRA]AA+(stable)/ [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

Annexure 2: List of entities considered for consolidated analysis:

Tata Capital Limited
Tata Capital Financial Services Limited
Tata Capital Housing Finance Limited
Tata Cleantech Capital Limited
Tata Securities Limited
Tata Capital Growth Fund
Tata Capital Special Situation Fund
Tata Capital Innovation Fund
Tata Capital Growth Fund II
Tata Capital Growth II General Partners LLP
Tata Capital Healthcare Fund I
Tata Capital Pte Limited

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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.

For more information, visit www.icra.in

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