

March 31, 2023<sup>(Revised)</sup>

## Tata Capital Limited: Update

### 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); outstanding
Commercial Paper Programme	3,000.00	3,000.00	[ICRA]A1+; outstanding
<b>Total</b>	<b>3,500.00</b>	<b>3,500.00</b>	

\*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.

On March 28, 2023, Tata Capital group announced the approval of its board for the 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.

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.

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 94.55% of TCL's equity shares as on December 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 will continue to monitor the developments on the merger and consequent impact on business plans of the entity, if any.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities: [Click here](#)

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Rating approach - Implicit support from parent or group</a> <a href="#">Rating Approach - Consolidation</a>
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 December 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. <i>Details are mentioned in Annexure II.</i>

## About the company

TCL is a subsidiary of Tata Sons Limited, which holds 94.55% of TCL as on December 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%

Tata Capital Limited (standalone) (In Rs. Crore)	FY2020	FY2021	FY2022	H1FY2023
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	Type	Amount Rated (Rs. crore)	Current Rating (FY2023)				Chronology of rating history for the past 3 years			
			Amount Outstanding as of Dec-31-22 (Rs. crore)	Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
				Mar-31-23	Feb-21-23	Dec-13-22			Jan-20-22	Jan-22-21
1	Non-convertible debentures	500	205	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
2	Commercial Paper	3,000	1,900	[ICRA]A1+	[ICRA]A1+	[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 31, 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	[ICRA]A1+
INE976I14NF1	Commercial Paper Programme	13-Jun-22	NA	13-Jun-23	125	[ICRA]A1+
INE976I14NG9	Commercial Paper Programme	11-Nov-22	NA	30-Jan-23	400	[ICRA]A1+
INE976I14NI5	Commercial Paper Programme	13-Dec-22	NA	28-Feb-23	500	[ICRA]A1+
INE976I14NH7	Commercial Paper Programme	13-Dec-22	NA	31-May-23	150	[ICRA]A1+
INE976I14NJ3	Commercial Paper Programme	14-Dec-22	NA	7-Mar-23	500	[ICRA]A1+
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+
NA^	Commercial Paper Programme	NA	NA	7-365 days	1,100.00	[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 2 on the document dated March 31, 2023.

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