February 29, 2024

Tata Sons Private Limited: Ratings reaffirmed; rated amount enhanced for Bank Limits; rating reaffirmed and withdrawn for non-convertible debentures of Rs. 865 crore

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	6,460.4	6,460.4	[ICRA]AAA(Stable); reaffirmed
Non-Convertible Debenture Programme	865.0	0.0	[ICRA]AAA(Stable); reaffirmed and withdrawn
Commercial Paper Programme	13,500.0	13,500.0	[ICRA]A1+; reaffirmed
Long-term/ Short-term – Non-fund Based	335.0	1,200.0	[ICRA]AAA(Stable)/ [ICRA]A1+; reaffirmed / assigned for enhanced limits
Total	**21,160.4**	**21,160.4**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation reflects the status of Tata Sons Private Limited (Tata Sons) as the principal investment company of the Tata Group, the leading business and/or financial position of most of its major investee companies, and the superior financial flexibility from the market value of its investments. The market value of Tata Sons' quoted investments stood at over Rs. 14.7 lakh crore, over its gross debt (excluding lease liabilities) which was Rs. 15,173 crore as on January 31, 2024. The net debt position stood at Rs. 5,656 crore as on January 31, 2024, with comfortable cash accruals aiding the overall reduction in the net debt position over the recent past. Tata Sons continues to exhibit a healthy financial profile, which coupled with its ability to raise funds by monetising its investments results in a superior liquidity profile for the company.

ICRA also notes the diversified portfolio of investments deployed by Tata Sons across its group companies, and the leading market position of various key Tata Group companies providing sufficient comfort to the overall credit profile of Tata Sons. Tata Consultancy Services Limited (TCS; rated [ICRA]AAA (Stable)/ [ICRA]A1+), the principal driver of Tata Sons' dividend income, continues to demonstrate a strong business and financial performance, providing comfort over the risk of dependence of Tata Sons on TCS for dividend income. In addition, ICRA notes the higher dividend inflow from other investee companies in FY2023, over previous years.

Tata Sons, being the principal holding company of the Tata Group, has been participating in the fund-raising programmes of some of its investee companies. Given that some of its subsidiaries in the digital and aviation space are currently in the investment phase, the funding support to these businesses is likely to continue over the medium term. Despite these investment requirements, ICRA expects the credit profile of Tata Sons to remain robust, supported by healthy dividend income/ share buyback inflows and exceptional financial flexibility on account of the significant market value of its investments vis-à-vis its current debt levels.

ICRA also notes the classification of Tata Sons as an upper layer non-banking finance company (NBFC-UL) by the Reserve Bank of India (RBI) in September 2022, as part of its scale-based regulations, and would continue to monitor the requirements with respect to the regulatory timelines.

The rating on the Rs. 865-crore non-convertible debenture (NCD) programme has been withdrawn, including (i) NCD programme worth Rs. 694.8 crore, which has been fully repaid, and there is no amount outstanding against it; and (ii) unplaced

NCD programme worth Rs. 170.2 crore as requested by the company. The rating withdrawal is in accordance with ICRA's policy on withdrawal.

The Stable outlook on the long-term rating of Tata Sons reflects ICRA's expectations that Tata Sons will continue to benefit from its diversified investment portfolio and the leading market position of its various key group entities. Continued inflows in the form of dividends/ share buyback proceeds from investee companies are expected to support Tata Sons' investment outlay into its group entities over the near to medium term.

Key rating drivers and their description

Credit strengths

Status as principal holding company of the Tata Group; favourable financial risk profile and significantly higher market value of investments vis-à-vis debt outstanding – Tata Sons is the principal holding company of the Tata Group of companies, and the owner of the Tata brand and associated Tata trademark. Holding investments across several listed companies of the Tata Group, it derives strong financial flexibility from the market value of its quoted investments, which stood at over Rs. 14.7 lakh crore as on January 31, 2024, resulting in a superior liquidity position. With 50% of the appreciation in the market value of these investments allowed to be added to the net worth for the calculation of capital adequacy as per the guidelines for Core Investment Companies (CIC) issued by RBI, the borrowing limit becomes inconsequential for Tata Sons, considering the market value of its investments. Furthermore, there is significant latent value in several unlisted investee companies, which provides an opportunity to monetise investments and further strengthen its financial flexibility. Tata Sons has a track record of monetising investments to support its investment requirements, whenever required, and ICRA expects this trend to continue.

Diversified portfolio of investments and leading market position of key Tata Group companies – Tata Sons' equity investments are spread across 10 verticals—viz., technology, infrastructure, automotive, steel, aerospace and defence, financial services, tourism and travel, consumer and retail, trading and investments, and telecom and media—including investments in flagship concerns like TCS, Tata Steel Limited, The Tata Power Company Limited, Tata Motors Limited, Tata Chemicals Limited, Titan Company Limited, Trent Limited, Tata Capital Limited, and Tata Consumer Products Limited, among others, which enjoy leading market positions in their respective business sectors.

Strong business and financial position of TCS, the principal driver of Tata Sons' dividend income – TCS enjoys a leading position among Indian players in the global IT and IT enabled services (ITeS) industry. Its financial position is characterised by healthy cash accruals and sizeable net cash surplus enjoyed over the years. Over the years, it has announced sizeable dividend pay-outs and periodic share buybacks, which have supported the overall cash inflows of Tata Sons, and this is expected to continue going forward as well.

Credit challenges

Possible support to Tata Group's acquisitions and organic growth plans; some key investee companies likely to continue to require funding from Tata Sons – The Tata Group has been expanding across sectors and growing businesses through inorganic as well as organic means. Tata Sons, being the principal holding company for the Group, has been participating in the fund-raising programmes of its various group companies. Given that some of its subsidiaries in the digital and aviation space are currently in the investment phase, the funding requirement by these businesses is likely to continue over the medium term. ICRA expects the credit profile of Tata Sons to remain robust, supported by dividend income and other income sources (such as brand subscription income, interest income and share buyback proceeds), along with exceptional financial flexibility on account of the significant market value of its investments vis-à-vis its current debt levels (96.7 times as on January 31, 2024).

Significant dependence on TCS for dividend income as well as investments – TCS accounted for around 90% of its dividend income (in FY2023) and around 72% of the market value of the quoted investments (as on September 30, 2023) of Tata Sons. While dividend income from companies other than TCS has increased over the years, Tata Sons' cash flows remain dependent on the performance of TCS to a large extent. However, the robust business and financial position of TCS provides comfort in this regard.

Liquidity position: Superior

The company enjoys a superior liquidity position with free cash and bank balances, and liquid investments of ~Rs. 9,516 crore as on January 31, 2024, and healthy accrual generation, which provide a sizeable cushion in relation to the annual scheduled debt repayment obligations. The company also enjoys exceptional financial flexibility from the significant market value of its listed investments of over Rs. 14.7 lakh crore as on January 31, 2024. While there are certain restrictions for investments in unlisted debt of private limited entities by mutual funds or insurance companies, Tata Sons has raised funds through ECBs and other sources to support its financing requirements. The company also has a track record of monetising its investment portfolio (including equity investments in group companies) to support its cash flows, whenever required, and ICRA expects this cash flow and investment management policy to continue.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Downward pressure on the rating could emerge if there is a significant deterioration in the credit profile of Tata Sons' major investee companies, resulting in significantly higher than budgeted investment requirements, or if its dividend income reduces significantly, thus resulting in increased leverage and pressure on its coverage metrics, on a sustained basis. Downward pressure on the company's ratings can also arise if a steep decline in the market value of its listed investments or a significant increase in the company's debt levels results in an increase in its total debt/market value of investments being higher than 10%, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Investment Companies ICRA Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company. While analysing Tata Sons, ICRA has taken into consideration the expected dividend inflows and the potential funding requirement of its major investee companies, which it may have to support. ICRA has also taken into account the market value of the quoted equity investments along with its portfolio of unlisted investments, which accord high financial flexibility.

About the company

Tata Sons Private Limited, 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 trademark. Charitable trusts owned most of Tata Sons' shareholding at 65% as on September 30, 2023. While income from dividends and profit generated on sale of investments constitute the principal revenue source for the company, there exist other sources of income for the company, such as royalty fees earned from 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 10 business verticals, 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 Sons Private Limited	FY2022 Audited	FY2023 Audited
Operating Income (Rs. crore)	23,921.5	34,896.8
PAT (Rs. crore)	17,171.2	22,132.4
OPBDIT/OI (%)	95.4%	96.1%
PAT/OI (%)	71.8%	63.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.5
Total Debt/OPBDIT (times)	1.4	0.7
Interest Coverage (times)	9.7	15.8

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: Tata Sons, ICRA Research

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 Feb 22, 2024 (Rs Crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					29-Feb-24	15-Feb-23	29-Mar-22	30-Sep-21	30-Sep-20
1	Commercial Paper Programme	Short-Term	13,500.0	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-convertible Debenture Programme	Long-Term	6,460.4	940.2	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Non-convertible Debenture Programme	Long-Term	865.0	0.0	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Bank Guarantee	Long Term / Short Term	1,200.0	NA	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	-	-

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Convertible Debenture Programme	Very Simple
Commercial Paper Programme	Very Simple
Long Term/Short-Term – Non-fund Based Facilities	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 analysing 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, are available on ICRA’s website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
INE895D07354	**NCD**	27-Nov-12	9.40%	27-Nov-27	70.0	[ICRA]AAA (Stable)
INE895D07446	**NCD**	20-Mar-14	9.90%	20-Mar-24	240.0	[ICRA]AAA (Stable)
INE895D07453	**NCD**	2-Jun-14	9.44%	2-Jun-24	140.2	[ICRA]AAA (Stable)
INE895D07487	**NCD**	19-Jun-14	9.30%	19-Jun-24	390.0	[ICRA]AAA (Stable)
INE895D07495	**NCD**	22-Jan-15	8.50%	22-Jan-25	85.0	[ICRA]AAA (Stable)
INE895D08618	**NCD**	5-Aug-16	8.08%	5-Aug-26	10.0	[ICRA]AAA (Stable)
INE895D08642	**NCD**	2-Sep-16	8.04%	2-Sep-26	5.0	[ICRA]AAA (Stable)
INE895D08550	**NCD**	2-May-13	8.85%	2-May-23	145.0	[ICRA]AAA (Stable); withdrawn
INE895D08576	**NCD**	21-May-13	8.32%	21-May-23	140.0	[ICRA]AAA (Stable); withdrawn
INE895D07370	**NCD**	13-Dec-13	9.71%	13-Dec-23	162.0	[ICRA]AAA (Stable); withdrawn
INE895D07396	**NCD**	13-Jan-14	9.74%	13-Jan-24	247.8	[ICRA]AAA (Stable); withdrawn
NA*	**NCD**	-	-	-	170.2*	[ICRA]AAA (Stable); withdrawn
NA*	**NCD**	-	-	-	5,520.2*	[ICRA]AAA (Stable)
NA*	**Commercial Paper Programme**	NA	NA	7-364 days	13,500.0*	[ICRA]A1+
NA	**Bank Guarantee**	NA	NA	NA	1,200.0	[ICRA]AAA (Stable)/ [ICRA]A1+

Source: *Company; *not yet issued*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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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