

## Tata Sons Limited

August 01, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	7,500.0	13,500.0	[ICRA]A1+; assigned
Non-Convertible Debenture Programme	27,010.0	27,010.0	[ICRA]AAA (Stable); outstanding
<b>Total</b>	<b>34,510.0</b>	<b>40,510.0</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus)<sup>1</sup> to the Rs. 13,500.0-crore<sup>2</sup> (enhanced from Rs. 7,500.0 crore) commercial paper programme of Tata Sons Limited (Tata Sons). ICRA also has a long-term rating of [ICRA]AAA (pronounced ICRA triple A) with a Stable outlook outstanding on the various non-convertible debenture (NCD) programmes amounting to Rs. 27,010.0 crore of the company.

### Rationale

The ratings incorporate Tata Sons' status as the principal investment company of the Tata Group, leading business and financial position of most of its major investee companies, and strong financial flexibility derived from the market value of its investments. ICRA notes that some of Tata Sons' key investee companies have been experiencing financial strain following aggressive investments, both organic and inorganic in the past, which have resulted in substantial funding requirement for the Group. Tata Sons, being the principal holding company, has been participating in the fund-raising programmes of some of its investee companies. These investments are being funded by a mix of dividend and interest income, stake sale in investee companies, and external borrowings. Internal accruals in FY2018 have been higher than that in FY2017 on account of income from buyback of shares by Tata Consultancy Services Limited (TCS), profit on sale of 1.63% stake in TCS and redemption of temporary surplus deployed in liquid funds. However, the profit after tax (PAT) was impacted due to diminution in value of investments in Tata teleservices Limited (TTSL) of Rs. 24,267 crore. Tata Sons has increased its investments in TTSL during FY2018. This has resulted in an increase in total debt to Rs. 27,748.3 crore as on March 31, 2018 from Rs. 20,680.4 crore as on March 31, 2017.

ICRA notes that the near term investment plans of Tata Sons are higher than in the past, primarily due to the support being extended to TTSL. These are expected to be funded through a combination of existing cash and bank balances, internal accruals, stake sale in investee companies and borrowings, resulting in a significant increase in debt levels in the near term. ICRA, however, continues to draw comfort from the favourable risk profile and liquidity position of the company, and expects the company to limit its leveraging to prudent levels by effecting sale of some of its investments, should the need arise. Tata Sons continues to enjoy a strong liquidity profile supported by adequate cash reserves and ability to raise funds through the monetisation of its investments.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

ICRA also notes the receipt of shareholders' approval for conversion of Tata Sons to a private limited company. The Insurance Regulatory and Development Authority (IRDA) guidelines restrict insurance companies from lending to private limited companies, to an extent restricting Tata Sons' source of funding. However, ICRA's discussion with the Tata Sons' management indicates, the company would be expanding its funding avenues to offset any limitations arising from the same.

## Outlook: Stable

ICRA continues to draw comfort from the favourable risk profile and liquidity position of the company, and expects the company to limit its leveraging to prudent levels by effecting sale of some of its investments, should the need arise. The outlook may be revised to Negative in the event of significantly higher than expected increase in debt levels or deterioration in the credit profile of its key investee company, TCS, resulting in a deterioration in the credit profile of Tata Sons.

## Key rating drivers

### Credit strengths

**Status as the principal holding company of the Tata Group, which provides strong financial flexibility** – Tata Sons is the principal holding company for the Tata Group companies, and the owner of the Tata brand and associated Tata trademark.

**Diversified portfolio of investments and leading market position of key Tata Group companies** – Tata Sons' equity investments are spread across seven major industry segments and include investments in flagship concerns like TCS, Tata Steel Limited, Tata Power Company Limited, Tata Motors Limited, Tata Chemicals Limited, Tata Global Beverages Limited, and TTSL among others.

**Strong business and financial position of TCS, the principal contributor to Tata Sons' dividend income** – TCS (rated [ICRA]AAA (stable) / [ICRA]A1+) enjoys a leading position among Indian players in the global information technology (IT) and IT enabled services (ITeS) industry. Its financial position is characterised by healthy cash accruals and sizeable net cash surplus position enjoyed over the years.

**Favourable financial risk profile and liquidity position despite increasing support to investee companies** – The market value of Tata Sons' quoted equity increased to Rs. 634,182 crore as on July 30, 2018 from Rs. 498,884 crore as on March 31, 2018. 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 issued by the Reserve Bank of India, 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 strengthens Tata Sons' financial flexibility.

### Credit challenges

**Possible support to Tata Group's acquisitions and organic growth plans; some of the key investee companies experiencing financial strain, resulting in larger funding requirements from Tata Sons** – The Tata Group has been expanding its presence across sectors and has been growing the business through acquisitions and organic means. Thus, several of the Group companies have been requiring sizeable funding support. Tata Sons, being the principal holding company for the Group, has been participating in the fund raising programmes of these companies. Tata Sons' near term investment plans are higher than in the past, primarily due to the support being extended to TTSL. These are expected to be funded through a combination of existing cash and bank balance, internal accruals, stake sale in investee companies and borrowings, resulting in a significant increase in debt levels in the near term.

**Significant dependence on TCS for dividend income as well as in terms of investments** – TCS accounted for around 90% of dividend income (in FY2018) and 79% of market value of quoted investments (as on March 31, 2018) of Tata Sons. Thus, there is a heavy dependence of Tata Sons’ cash flows on the performance of TCS. However, robust business and financial position of TCS provides comfort.

**Volatile stock market conditions may reduce Tata Sons’ financial flexibility in terms of monetising investments**

**Analytical approach:** While analysing Tata Sons, ICRA has taken into consideration the expected dividend inflows and the potential funding requirement of its major investee companies that may have to be supported by Tata Sons. 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.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

**About the company:**

Tata Sons 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 Tata trademark. Charitable trusts, including those endowed by the late Sir Dorabji Tata, own majority 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 promotion of the brand. Tata Sons also provides certain group level services to the Tata companies, key among them being facilitating business excellence within the Tata Group by conducting a training programme (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 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, among others.

For the 12 months ended March 31, 2018, Tata Sons reported a profit after tax (PAT) of Rs. 872.6 crore on an operating income (OI) of Rs. 28,102.3 crore, as against a PAT of Rs. 824.0 crore on an OI of Rs. 9,950.4 crore for the 12 months ended March 31, 2017.

**Key financial indicators (audited)**

Standalone	FY2017	FY2018
Operating Income (Rs. crore)	9,950.4	28,102.3
PAT (Rs. crore)	824.0	872.6
OPBDIT/ OI (%)	93.6%	97.5%
RoCE (%)	4.2%	4.7%
Total Debt/ TNW (times)	0.5	0.7
Total Debt/ OPBDIT (times)	2.2	1.0
Interest Coverage (times)	5.2	12.3

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth (TNW) + Deferred Tax Liability - Capital Work - in Progress)*

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years								
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating		Date & Rating in FY2018				Date & Rating in FY2017	Date & Rating in FY2016	
				August 2018	June 2018	February 2018	October 2017	September 2017	August 2017			
1	Commercial Paper Programme	13,500.0	3,075.0	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+
2	Non-Convertible Debenture Programmes	27,010.0	27,010.0	[ICRA]A AA (Stable)	[ICRA]A AA (Stable)	[ICRA]A AA (Stable)	[ICRA]A AA (Stable)	[ICRA]A AA (Stable)	[ICRA]A AA (Stable)	[ICRA]A AA (Stable)	[ICRA]A AA (Stable)	[ICRA]A AA (Stable)

\*As on March 31, 2018

**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](http://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
INE895D08246	NCD	7-Jun-10	8.99%	7-Jun-20	150.0	[ICRA]AAA (Stable)
INE895D08253	NCD	15-Jul-10	8.97%	15-Jul-20	350.0	[ICRA]AAA (Stable)
INE895D08261	NCD	6-Sep-10	9.10%	6-Sep-20	250.0	[ICRA]AAA (Stable)
INE895D08287	NCD	23-Nov-10	9.18%	23-Nov-20	300.0	[ICRA]AAA (Stable)
INE895D08436	NCD	25-Apr-12	9.54%	25-Apr-22	250.0	[ICRA]AAA (Stable)
INE895D08451	NCD	12-Jun-12	9.69%	12-Jun-22	350.0	[ICRA]AAA (Stable)
INE895D08477	NCD	23-Jul-12	9.70%	25-Jul-22	438.0	[ICRA]AAA (Stable)
INE895D08493	NCD	13-Aug-12	9.70%	16-Aug-22	152.0	[ICRA]AAA (Stable)
INE895D08519	NCD	29-Aug-12	9.71%	29-Aug-22	175.0	[ICRA]AAA (Stable)
INE895D08543	NCD	13-Sep-12	9.67%	13-Sep-22	300.0	[ICRA]AAA (Stable)
INE895D07354	NCD	27-Nov-12	9.40%	27-Nov-27	1,000.0	[ICRA]AAA (Stable)
INE895D08568	NCD	2-May-13	8.85%	2-May-18	500.0	[ICRA]AAA (Stable)
INE895D08550	NCD	2-May-13	8.85%	2-May-23	225.0	[ICRA]AAA (Stable)
INE895D08576	NCD	21-May-13	8.32%	21-May-23	175.0	[ICRA]AAA (Stable)
INE895D07388	NCD	13-Dec-13	9.76%	13-Dec-18	193.0	[ICRA]AAA (Stable)
INE895D07370	NCD	13-Dec-13	9.71%	13-Dec-23	237.0	[ICRA]AAA (Stable)
INE895D07412	NCD	13-Jan-14	9.78%	13-Jan-19	385.0	[ICRA]AAA (Stable)
INE895D07396	NCD	13-Jan-14	9.74%	13-Jan-24	305.0	[ICRA]AAA (Stable)
INE895D07438	NCD	20-Mar-14	9.90%	20-Mar-19	400.0	[ICRA]AAA (Stable)
INE895D07446	NCD	20-Mar-14	9.90%	20-Mar-24	300.0	[ICRA]AAA (Stable)
INE895D07461	NCD	2-Jun-14	9.43%	2-Jun-19	245.0	[ICRA]AAA (Stable)
INE895D07453	NCD	2-Jun-14	9.44%	2-Jun-24	155.0	[ICRA]AAA (Stable)
INE895D07479	NCD	19-Jun-14	9.25%	19-Jun-19	450.0	[ICRA]AAA (Stable)
INE895D07487	NCD	19-Jun-14	9.30%	19-Jun-24	550.0	[ICRA]AAA (Stable)
INE895D07503	NCD	22-Jan-15	8.60%	22-Jan-20	100.0	[ICRA]AAA (Stable)

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE895D07495	NCD	22-Jan-15	8.50%	22-Jan-25	200.0	[ICRA]AAA (Stable)
INE895D08584	NCD	31-Aug-15	8.55%	31-Aug-20	220.0	[ICRA]AAA (Stable)
INE895D08592	NCD	31-Aug-15	8.55%	31-Aug-25	30.0	[ICRA]AAA (Stable)
INE895D07511	NCD	2-Feb-16	8.48%	2-Feb-26	2000.0	[ICRA]AAA (Stable)
INE895D08600	NCD	5-Aug-16	8.07%	5-Aug-21	400.0	[ICRA]AAA (Stable)
INE895D08618	NCD	5-Aug-16	8.08%	5-Aug-26	200.0	[ICRA]AAA (Stable)
INE895D08626	NCD	5-Aug-16	8.09%	6-Aug-29	100.0	[ICRA]AAA (Stable)
INE895D08634	NCD	2-Sep-16	8.01%	2-Sep-21	390.0	[ICRA]AAA (Stable)
INE895D08642	NCD	2-Sep-16	8.04%	2-Sep-26	285.0	[ICRA]AAA (Stable)
INE895D08659	NCD	2-Sep-16	8.07%	3-Sep-29	635.0	[ICRA]AAA (Stable)
INE895D08667	NCD	14-Dec-16	7.55%	14-Dec-19	750.0	[ICRA]AAA (Stable)
INE895D08675	NCD	14-Dec-16	7.60%	14-Dec-21	500.0	[ICRA]AAA (Stable)
INE895D08683	NCD	04-Jan-17	7.90%	04-Jan-32	865.0	[ICRA]AAA (Stable)
INE895D08733	NCD	01-Mar-17	7.90%	01-Mar-20	500.0	[ICRA]AAA (Stable)
INE895D08758	NCD	02-Mar-17	7.90%	02-Mar-20	500.0	[ICRA]AAA (Stable)
INE895D08741	NCD	01-Mar-17	7.90%	03-Mar-20	500.0	[ICRA]AAA (Stable)
INE895D08766	NCD	06-Mar-17	7.90%	06-Mar-20	500.0	[ICRA]AAA (Stable)
INE895D08782	NCD	23-Mar-17	8.25%	23-Mar-22	1,000.0	[ICRA]AAA (Stable)
INE895D08790	NCD	23-Mar-17	8.25%	23-Mar-22	500.0	[ICRA]AAA (Stable)
INE895D08808	NCD	14-Aug-17	7.40%	16-Aug-22	2,000.0	[ICRA]AAA (Stable)
INE895D08816	NCD	14-Aug-17	7.30%	14-Aug-20	200.0	[ICRA]AAA (Stable)
INE895D08824	NCD	16-Aug-17	7.40%	14-Aug-20	600.0	[ICRA]AAA (Stable)
INE895D08832	NCD	18-Aug-17	7.35%	18-Aug-20	250.0	[ICRA]AAA (Stable)
INE895D08840	NCD	21-Aug-17	7.40%	21-Aug-20	250.0	[ICRA]AAA (Stable)
INE895D08857	NCD	28-Aug-17	7.35%	28-Aug-20	200.0	[ICRA]AAA (Stable)
NA	Proposed NCD	-	-	-	500.0	[ICRA]AAA (Stable)

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE895D08873	NCD	17-Jan-18	8.25%	20-Mar-21	500.0	[ICRA]AAA (Stable)
INE895D08881	NCD	18-Jan-18	8.25%	23-Mar-21	500.0	[ICRA]AAA (Stable)
INE895D08899	NCD	19-Jan-18	8.25%	24-Mar-21	500.0	[ICRA]AAA (Stable)
INE895D08907	NCD	22-Jan-18	8.25%	25-Mar-21	500.0	[ICRA]AAA (Stable)
NA	Proposed NCD	-	-	-	3,000.0	[ICRA]AAA (Stable)
NA	Commercial Paper Programme	NA	NA	59-364 days	13,500.0	[ICRA]A1+

Source: Tata Sons 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](http://www.icra.in)

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