

February 27, 2020

Tata Capital Limited: [ICRA]AAA (Stable) rating assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD programme	0.00	500.00	[ICRA]AAA(stable); assigned
Commercial Paper Programme	2,000.00	2,000.00	[ICRA]A1+; outstanding
Total	2,000.00	2,500.00	

*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 rating for TCL derives significant strength from its parentage, Tata Sons Limited (TSL; rated [ICRA]AAA(Stable)/[ICRA]A1+), which owned 94.23% of TCL's equity shares¹ as on September 30, 2019, and the strategic importance of the financial services business (housed under TCL and its subsidiaries) to the Tata Group. TCFSL, in turn, is a 100% subsidiary of TCL. The rating is also supported by TSL's stated intent of keeping TCL adequately capitalised on a consolidated basis and to continue maintaining significant ownership and management control in the company. The importance of the Tata Capital Group to TSL is also highlighted through the Rs. 2,500-crore capital infusion in FY2019 and further Rs. 1,000 crore in Q3FY2020. The rating also factors in the Group's diverse product mix, higher share of the retail loan book, diversified funding profile and financial flexibility arising from being a part of the Tata Group, improvement in the asset quality indicators and the healthy provision cover. The credit strengths are partially offset by the moderate earnings profile and relatively high level of consolidated gearing level, albeit improving on account of demonstrated capital support by TSL. ICRA believes the prudent capitalisation level is one of the key mitigants against delinquencies and other credit risks associated with the lending business.

Key rating drivers and their description

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 September 30, 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 as TCL (through its subsidiaries) is the primary financial services lending arm for the Tata Group. Given the importance of the financial services business to the Tata Group and TSL's stated intent to keep TCL adequately

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

capitalised on a consolidated basis, ICRA expects TSL to continue to provide financial support to enable TCL to maintain a comfortable capitalisation and liquidity profile. ICRA also expects TSL to continue maintaining significant ownership and management control in TCL. The importance of the Tata Capital Group to TSL is also highlighted by the Rs. 2,500-crore capital infusion in FY2019 and further Rs. 1,000 crore in Q3FY2020. Any dilution in TCL's importance for TSL or in the expectation of support from TSL or a change in TSL's credit profile would be a key rating sensitivity.

Diverse product mix; higher share of retail portfolio - The total AUM (on a combined basis for TCFSL+TCHFL+TCCL) grew to ~Rs. 77,655 crore as on December 31, 2019 (from ~Rs. 75,946 crore as on March 31, 2019 and Rs. 60,499 crore as on March 31, 2018) with retail loans comprising ~60% of the aggregate portfolio. The loan book is fairly diversified across various products in wholesale and retail lending. The wholesale loan book comprised corporate loans and credit substitutes and builder loans (22% of the total combined loan book), channel financing (10%), infrastructure and project loans (7%) and loan against shares (1%) as on December 31, 2019. ICRA also notes the relatively lower credit concentration of large exposures within the wholesale book compared to peers. The retail loan book comprised home loans (23% of the total combined loan book), home equity/loan against property (LAP; 17%), personal loans (10%), construction equipment financing (5%), auto financing (5%) and others (1%). While ICRA expects portfolio growth to moderate from the level seen in FY2019, the loan book is expected to remain well diversified across products and borrower/Group level exposures.

Diverse borrowing profile and good financial flexibility- The Tata Capital Group enjoys good financial flexibility, being a part of the Tata Group, with access to funds at competitive rates of interest and from various sources. TCL's consolidated funding profile is fairly diversified with a mix of non-convertible debentures, bank borrowings, and commercial paper. As on September 30, 2019, the overall capital market borrowings stood at ~46% of the total aggregate borrowings. The proportion of commercial papers in the aggregate funding mix declined to ~11% as on September 30, 2019 from 14% as on March 31, 2019. ICRA takes comfort from the company's cash flow from its short-term assets and its policy of maintaining adequate unutilised bank facilities as a liquidity backup.

Comfortable asset quality and healthy provision cover - On an aggregate basis, TCL's asset quality indicators moderated with GNPA and NNPA's of 2.26% and 0.59%, respectively, as on December 31, 2019, against 1.75% and 0.36%, respectively, as on March 31, 2019 owing to some fresh slippages in the current fiscal. Nevertheless, there has been an improvement in the asset quality indicators for the Group with the NPAs steadily declining over the last four years on the back of increased write-offs, controlled fresh slippages and expansion of the overall loan book. The overall provision cover was healthy at ~75% as on December 31, 2019. Going forward, ICRA expects the overall asset quality to remain comfortable and company to maintain healthy provision cover to protect the balance sheet against asset quality risk though some uptick is possible due to stress in some key lending segments and limited portfolio seasoning.

Credit challenges

Consolidated gearing remains relatively high; albeit improving on account of demonstrated support and stated intent of TSL to keep TCL Group's capitalisation adequate provides comfort - On a consolidated basis, TCL's capitalisation profile is supported by the capital infusion from the parent, reflected by the latest capital infusion of Rs. 2,500 crore in FY2019 and Rs. 1,000 crore in Q3FY2020 as well as TSL's stated intent to provide regular capital support to TCL to enable it to maintain an adequate capitalisation profile. Following the capital infusion in FY2019, 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 a consolidated basis owing to relatively higher provision cover as compared to peers.

TCL's capital adequacy, on a standalone basis, remains comfortable with a capital adequacy ratio (CAR) of 57.5%, significantly above the regulatory requirement of 30% for core investment companies (CICs), and a comfortable leverage ratio of 0.63 times (against the regulatory requirement of maximum 2.5 times for CICs) as on December 31, 2019. The regulatory CARs of the three key subsidiaries of the Group remain comfortable with CAR and Tier I of TCFSL at 18.25% and

12.72%, respectively, TCHFL at 16.68% and 12.86%, respectively, and TCCL at 18.55% and 14.88%, respectively, as on December 31, 2019. ICRA believes the prudent capitalisation level is one of the key mitigants against delinquencies and other credit risks associated with the lending business. Given the strategic importance of TCL to the 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 by the return on assets (RoA) of 1.39% in FY2019 and 1.12% in FY2018. The Group's profitability has been moderate on account of higher operating expenses, 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 the tightened liquidity environment. Profitability in FY2019 was supported by significant gains from the derecognition of investments in associates and fair value changes. However, despite the higher credit costs (0.90% in FY2019 from 0.55% in FY2018) and increase in operating expenses (2.31% in FY2019 from 2.10% in FY2018), the company reported RoA and RoE of 1.39% and 17.42%, respectively, in FY2019 compared with 1.12% and 17.19%, respectively, in FY2018. Consolidated profitability remained subdued across operating subsidiaries with the TCFSL, TCHFL and TCCL reporting PAT of Rs. 199 crore, Rs. 80 crore and Rs. 93 crore respectively in 9MFY2020 as compared to Rs. 261 crore, Rs. 22 crore and Rs. 72 crore respectively during Q3FY2019. ICRA expects TCL's profitability to improve over the medium term with the scaling up of operations and a 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 earnings profile.

Liquidity Position: Strong

The Group's liquidity profile is strong at the consolidated level. As on December 31, 2019, total combined (TCL+TCFSL+TCHFL+TCCL) repayments for next 6 months stood at Rs. 21,660 crore of which WCDL constitute ~Rs. 5,403 crore. As on December 31, 2019, combined cash and liquid investments stood at ~Rs. 679 crore. Additionally, the total sanctioned unused bank lines maintained across subsidiaries aggregating to Rs. 11,406 crore as on December 31, 2019 and expected inflows of ~Rs. 17,000 crore over the next six months provide comfort regarding the consolidated liquidity profile of the 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

Positive triggers – Not applicable

Negative triggers - A significant change in the shareholding pattern of TCFSL or a reduction in the stake of TSL in TCL, a change in the expectation of support from the parent (TSL) or a deterioration in TSL's credit profile could warrant a rating downgrade. Negative pressure on the ratings could arise if there is a deterioration in the asset quality with the consolidated GNPA remaining above 5% on a sustained basis or on a deterioration in TCL's consolidated capitalisation profile on a 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 September 30, 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. <i>Details mentioned in Annexure 2</i>

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 H1FY2020, the company reported a standalone net profit of Rs. 47.40 crore on a total standalone asset base of Rs. 9,555 crore against a net profit of Rs. 27.53 crore on a total asset base of Rs. 9,573 crore in FY2019.

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	H1FY2020
Dividend Income	232.61	205.71	53.56
Operating Income	113.47	83.27	39.29
Operating expenses	132.90	295.72	58.21
Profit after Tax	36.56	27.53	47.40
Total Loan Book	338.25	581.76	354.45
Investment Book	6,779.82	8,266.94	8677.06
Capital Adequacy Ratio	41%	61%	60%
Leverage Ratio	0.85	0.74	0.71
Return on Average Assets	0.52%	0.33%	0.99%
Return on Average Net Worth	1.11%	0.60%	1.62%

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	FY2020		Amount Outstanding as on December 31, 2019 (Rs. crore)	Current rating	Previous rating	Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)				FY2019	FY2018	FY2017
					27-Feb-20	27-Sep-19	29-Aug-18	27-Sep-17	4-May-16
1	Non-convertible debentures	Long Term	500	-	[ICRA]AAA (Stable); assigned	-	-	-	[ICRA]AA+(stable); withdrawn
2	Commercial Paper	Short Term	2,000	650	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+; 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+
NA	NCD programme	NA*	NA	NA	500.00	[ICRA]AAA(stable)

Source: TCL

*Yet to be placed

Annexure 2: List of entities considered for consolidated analysis:

Company name	Ownership/Relationship	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	28.18%	Full consolidation
Tata Capital Innovation Fund	27.13%	Full consolidation
Tata Capital Growth Fund II	14.96%	Full consolidation
Tata Capital Growth II General Partners LLP	80%	Full consolidation
Tata Capital Healthcare Fund I	32.12%	Full consolidation
Tata Capital Pte Limited	100%	Full consolidation

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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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