

March 29, 2022

Tata Sons Private Limited: Ratings reaffirmed for Non-Convertible Debenture and Commercial Paper programme; [ICRA]AAA(Stable)/[ICRA]A1+ assigned for Bank Limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	7,635.4	7,325.4	[ICRA]AAA(Stable); reaffirmed
Non-Convertible Debenture Programme	25.0	0.0	[ICRA]AAA(Stable); reaffirmed and withdrawn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	[ICRA]AAA(Stable)/[ICRA]A1+; assigned
Total	21,160.4	21,160.4	

*Instrument details are provided in Annexure-1

Rationale

The rating assignment for bank lines and reaffirmation for non-convertible debenture and commercial paper programmes continues to factor in 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 strong financial flexibility from the market value of its investments. Tata Sons' market value of investment stood at over Rs 10.3 lakh crore as compared to net debt of Rs 27,616 crore (excluding lease liabilities) as on March 31, 2021, resulting in comfortable investment metrics. Market value has since increased to Rs 12.3 lacs crore while net debt stood at Rs. 30,327 crore as on February 28, 2022. Moreover, Tata Sons continues to enjoy a superior liquidity profile supported by adequate cash reserves and its ability to raise funds by monetising its investments.

Tata Sons, being the principal holding company, has been participating in the fund-raising programmes of some of its investee companies. Given 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 in the near to medium term. ICRA expects credit profile of Tata Sons to remain robust, supported by healthy dividend/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 recent acquisition of Air India Limited by Talace Private Limited (Talace), a subsidiary of Tata Sons. While the acquisition is expected to provide synergies to Talace in the form of aviation assets and boost the market share within the domestic aviation space, the funding requirements, if any, are expected to be provided by Tata Sons. The company has not extended any explicit support to the borrowings availed by Air India.

The rating on the Rs. 25-crore non-convertible debenture (NCD) programme has been withdrawn as the company has fully repaid the said NCD programme and there is no amount outstanding against it. The rating withdrawal is in accordance with ICRA's policy on withdrawal and suspension, and at the request of the company.

Key rating drivers and their description

Credit strengths

Status as the 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. Thus, it derives strong financial flexibility from the market value of its quoted investments. The market value of Tata Sons' quoted investments stood at ~Rs. 10.3 lakh crore as on March 31, 2021 and is expected to have been improved further in the present fiscal with the increase largely being attributed to improved stock market conditions, resulting in considerable increase in market prices of the listed investments. 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 (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., information technology (IT), infrastructure, automotive, steel, aerospace and defence, financial services, tourism and travel, consumer and retail, trading and investments, and telecom and media, and it includes investments in flagship concerns like Tata Consultancy Services Limited (TCS), Tata Steel Limited, Tata Power Company Limited, Tata Motors Limited, Tata Chemicals Limited, Titan Company Limited, and Tata Consumer Products Limited (erstwhile Tata Global Beverages Limited), among others, which enjoy leading market positions in their respective areas of businesses.

Strong business and financial position of TCS, the principal driver of Tata Sons' dividend income – TCS (rated [ICRA]AAA (Stable) / [ICRA]A1+) 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. The annual dividend inflows and share buyback programme announced by TCS in the present fiscal is expected to provide further comfort to Tata Sons' cashflows over the near term.

Credit challenges

Possible support to Tata Group's acquisitions and organic growth plans; some key investee companies may require funding requirements from Tata Sons – The Tata Group has been expanding across sectors and has been growing its business through inorganic as well as organic means. Given 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 in the near to medium term. Tata Sons, being the principal holding company for the Group, has been participating in the fund-raising programmes of its various group companies. Despite its investment plans, ICRA expects credit profile of Tata Sons to remain robust, supported by dividend and other cash inflows along with exceptional financial flexibility on account of the significant market value of its investments vis-à-vis its current debt levels.

Significant dependence on TCS for dividend income as well as investments – TCS accounted for around 89% of dividend income (in FY2021) and around 82% of the market value of quoted investments (as on March 31, 2021) of Tata Sons. While dividend income from companies other than TCS has increased sharply, Tata Sons' cash flows are dependent on the performance of TCS. However, the robust business and financial position of TCS provides comfort.

Liquidity position: Superior

The company enjoys a superior liquidity position backed by its balance of cash and liquid investments of ~Rs. 2,410 crore as on February 28, 2022. Furthermore, the company enjoys exceptional financial flexibility on account of the significant market value of its listed investments of ~Rs. 10.3 lakh crore as on March 31, 2021, against its net debt of Rs. 27,616 crore as on March 31, 2021. Market value has since increased to Rs 12.3 lacs crore net debt stood at Rs. 30,327 crore as on February 28, 2022. 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 requirement. The company 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. The aforementioned internal sources of funding provide a sizeable cushion in relation to the scheduled debt repayment obligations of ~Rs. 16,305 crore in FY2023.

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 Methodologies for Holding Companies 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 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. 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	FY2020 Audited	FY2021 Audited
Operating Income (Rs. crore)	24,741.1	19,515.0
PAT (Rs. crore)	2,679.8	6,511.6
OPBDIT/OI (%)	91.9%	93.1%
PAT/OI (%)	10.8%	33.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.0
Total Debt/OPBDIT (times)	1.4	1.7
Interest Coverage (times)	8.3	7.1

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 (FY2022)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated	Amount Outstanding as of Feb 28, 2022	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
			(Rs. crore)	(Rs. crore)	29-Mar-22	30-Sep-21	30-Sep-20	30-Aug-19	25-Oct-2018, 31-Oct-2018	1-Aug-18	19-Jun-18
1	Commercial Paper Programme	Long-Term	13,500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-convertible Debenture Programme	Long-Term	7,325.4	4,135.4	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Non-convertible Debenture Programme	Long-Term	25.0	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Bank Guarantee	Long Term / Short Term	335.0	-	[ICRA]AAA (Stable)/ [ICRA]A1+; assigned	-	-	-	-	-	-
5	Non-convertible Debenture Programme	Long-Term	-	-	-	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

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	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: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
INE895D08436	NCD	25-Apr-12	9.54%	25-Apr-22	215.0	[ICRA]AAA (Stable)
INE895D08451	NCD	12-Jun-12	9.69%	12-Jun-22	270.0	[ICRA]AAA (Stable)
INE895D08477	NCD	23-Jul-12	9.70%	25-Jul-22	271.0	[ICRA]AAA (Stable)
INE895D08493	NCD	13-Aug-12	9.70%	16-Aug-22	132.0	[ICRA]AAA (Stable)
INE895D08519	NCD	29-Aug-12	9.71%	29-Aug-22	114.0	[ICRA]AAA (Stable)
INE895D08543	NCD	13-Sep-12	9.67%	13-Sep-22	153.4	[ICRA]AAA (Stable)
INE895D07354	NCD	27-Nov-12	9.40%	27-Nov-27	70.0	[ICRA]AAA (Stable)
INE895D08550	NCD	2-May-13	8.85%	2-May-23	145.0	[ICRA]AAA (Stable)
INE895D08576	NCD	21-May-13	8.32%	21-May-23	140.0	[ICRA]AAA (Stable)
INE895D07370	NCD	13-Dec-13	9.71%	13-Dec-23	162.0	[ICRA]AAA (Stable)
INE895D07396	NCD	13-Jan-14	9.74%	13-Jan-24	247.8	[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)
INE895D08675	NCD	14-Dec-16	7.60%	14-Dec-21	25.0	[ICRA]AAA (Stable); withdrawn
INE895D08782	NCD	23-Mar-17	8.25%	23-Mar-22	420.0	[ICRA]AAA (Stable)
INE895D08790	NCD	23-Mar-17	8.25%	23-Mar-22	425.0	[ICRA]AAA (Stable)
INE895D08808	NCD	14-Aug-17	7.40%	16-Aug-22	500.0	[ICRA]AAA (Stable)
-	NCD	-	-	-	3,190.0*	[ICRA]AAA (Stable)
NA	Commercial Paper Programme	NA	NA	7-364 days	13,500.0*	[ICRA]A1+
NA	Bank Guarantee	NA	NA	NA	335.0	[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

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Kinjal Shah

+91 22 6114 3442

kinjal.shah@icraindia.com

Mythri Macherla

+91 80 4332 6407

mythri.macherla@icraindia.com

Yashowardhan Swami

+91 20 6606 9923

yashowardhan.swami@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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