

Tata Capital Financial Services Limited

	Amount Rated (in Rs. crore)	Rating Outstanding	Rating Action
Commercial Paper /STD programme	10,000 (enhanced from Rs. 7,000 crore)	[ICRA]A1+	Assigned

ICRA has assigned a rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 10,000 crore (enhanced from Rs. 7,000 crore) commercial paper/short term debt programme of Tata Capital Financial Services Limited (TCFSL)[†]. ICRA has rating outstanding of [ICRA]AA+ (pronounced ICRA double A plus) for the Rs. 8860.02 crore Non Convertible Debenture Programme, Rs. 1,000 crore Subordinate Debt Programme, Rs. 7,703 crore¹ long term loans, Rs. 10,900 crore²¹ long term fund based limits and Rs. 1000 crore² long term non fund based limits of the company[†]. ICRA also has a rating outstanding of [ICRA]AA (pronounced ICRA double A) to the Rs. 600 crore perpetual Debt programme of the company[†]. The outlook on the long term ratings is 'Stable'. ICRA also has ratings outstanding of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 500 crore Short Term Loans of the company[†].

The rating opinion on TCFSL factors in the strategic importance of the finance vertical to its ultimate parent 'Tata Sons Limited' as well as the credit profile of its ultimate parent 'Tata Sons Limited' (rated by ICRA at [ICRA]AAA (stable) for its long term borrowings and [ICRA]A1+ for its short term borrowings). TCFSL is a wholly owned subsidiary of Tata Capital Limited (TCL), which in turn is owned by TSL.

TCFSL's rating is strongly linked to the expectation of continued support from its ultimate parent, which in the past has included access to capital, the group's management & systems and supervision by a strong board. TCFSL as part of the Tata group enjoys a healthy financial flexibility to raise long term funding at competitive rates and hence has a good liquidity profile. The ALM profile (as on Feb 2016) for the company has some short term mismatches, which the company should be in a position to plug with access to un-utilized bank lines and also through roll-over of existing outstanding bank borrowings. ICRA expects equity support from the parent to be forthcoming to keep TCFSL adequately capitalized.

TCFSL also benefits in terms of business volumes in some of its product segments (dealer / vendor financing) with access to a large base customers associated with the supply chain of the Tata group. TCFSL has also leveraged the group's strong franchise and common brand name to expand its customer base in retail lending segments, which accounted for 48% of total advances as on September 30, 2015.

ICRA has noted the pressure on the asset quality indicators of the company with gross NPA% of 6.50% in September 30, 2015 (based on the 150+ day NPA recognition norm) against 5.7% as on March 31, 2015 (based on the 180+ day norm, and 6.5% based in the 150+ day norm), on account of high delinquencies in the construction equipment segment and slippages in the large ticket corporate accounts. While delinquency trends for the company have somewhat stabilized in 2015-16 and some resolutions in the corporate loan segment are expected in near term, delinquencies are expected to remain elevated in the near term. An alleviation of asset quality pressures could come with a lag and would be linked to the ability TCFSL to continue to manage recoveries or mitigate losses through enforcement of security.

TCFSL's provisioning coverage was 39% as on September 30, 2015. In the short term, TCFSL may need to make additional provisions on a few already classified NPA exposures and also on account of the shift to the tighter NPA recognition norm³ which is expected to weigh on earnings in FY16. Going forward ability of TCFSL

[†] For Complete rating scale and definitions please refer to ICRA's Website www.icra.in or ICRA Rating Publications"

¹ Includes an amount of Rs. 4603 crore which is interchangeable between long term fund based limits and long term loans

² Includes Rs. 500 crore limits which are interchangeable between long term loans fund based limits and long term non fund based limits

³ TCFSL migrated to the 150+ day from the 180 day NPA recognition norm on April 1, 2015

to manage its asset quality pressures and manage recoveries from vulnerable accounts would remain a key rating sensitivity.

Earnings for TCFSL remains weighed by relatively higher credit provisions and operating expenses, large share of book in the low yielding auto segment and low effective yields on the corporate lending and construction equipment where delinquencies are high. In 9MFY2016 return on average assets and return on average equity for the company were 0.8% and 6.5%. While possible easing of operating environment pressures and softening of systemic interest rates could be favourable for the company, overall ICRA expects earnings to remain tempered as credit costs are expected to remain high.

About the company

Tata Capital Financial Services Limited

Tata Capital Financial Services Limited was incorporated in November 19, 2010 and is a wholly owned subsidiary of Tata Capital Limited. With effect from March 27, 2012, the assets and liabilities of Tata Capital Limited (TCL) were transferred to TCFSL pursuant to High court order, sanctioning the scheme of arrangement between TCL and TCFSL. Following this Scheme of Arrangement TCFSL has taken over the lending operations from TCL, which offered a plethora of financial services, fund based and non- fund based, including auto finance for non-Tata vehicles, finance of construction equipment, working capital finance for Corporate/SMEs and unsecured retail finance. TCFSL is registered as non-deposit accepting NBFC with the RBI. During the financial year ended March 31, 2015 the company reported a Profit after Tax (PAT) of Rs. 187 crore on an asset base of Rs. 25,584 crore against a PAT of Rs. 172 crore on an asset base of Rs. 23,109 crore in the previous financial year.

During the half year ended September 30, 2015 the company reported a profit after tax of Rs. 114 crore against a profit of Rs. 99 crore during the corresponding period in the previous financial year. As on September 30, 2015 the company had a net worth of Rs. 3,255 crore and a gross and net NPA% of 6.50% and 4.06% respectively.

As on September 30, 2015 total credit book^{††} of the company stood at Rs. 24,366 crore, out of which 52% was in the wholesale lending segment, comprising of loans to corporate including trade advances (20%). TCFSL's retail portfolio accounted for 48% of total book and comprised of financing for Auto (13%), Loan Against Property (12%), Construction Equipment (9%), Unsecured business loan (8%) and Tractor (5%).

Tata Capital Limited

Primal Investments and Finance Limited was established in March 1991 and the name was changed to Tata Capital Limited in May 2007. TCL is a subsidiary of Tata Sons Limited and as on September 30, 2012 TSL had a 90.28% shareholding in TCL. TCL is registered as Core Investment Company (CIC) and is the holding company for the various financial services of the group including TCFSL, Tata Capital Housing Finance Limited (TCHFL) and Tata Securities Limited. TCL also holds strategic and private equity investments. As on March 31, 2015 the company had a net worth (excluding preference shares) of Rs. 2795⁴ crore and had an asset base of Rs. 4,907 crore. During the financial year ended March 31, 2015 TCL reported a profit of Rs.115.49 crore.

Tata Sons Limited

Tata Sons Limited (Tata Sons), 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 the management of the brand. Tata Sons also provides certain group level services to the Tata companies, key amongst them being facilitating Business Excellence within the Tata Group by conducting training programme (through Tata Quality Management Services), legal assistance and HR services. Tata Consultancy Services division (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 2004-05. 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, Tata Global Beverages Limited and so on.

⁴ Adjusted for preference shares and miscellaneous expenses yet to be written off

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