

Tata Industries Limited

January 06, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Proposed Non-Convertible Debenture Issue	6,000.00 (Rs. Six Thousand Crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the proposed debt instrument of Tata Industries Limited (TIL) takes into account the strong financial flexibility emanating from the substantial investment held by TIL in various flagship companies of Tata group. TIL operates as an investment holding company of the Tata group, in addition to incubating new business ventures. The rating factors in TIL's experienced management strength and their successful track record in incubating new businesses, which helps the Tata group diversify their business in new areas. TIL is likely to continue its funding cycle in its various subsidiaries/divisions including newly incubated ventures. The rating also considers the improvement in the performance of the operating divisions of the company which is reflected by the consistent increase in their revenues for the past three years (*refers to FY18-FY20*) in addition to TIL's recurring dividend income. The rating favourably factors in the strategic and economic importance of TIL to Tata Sons Private Limited (TSPL) which is reflected by the dominant shareholding maintained by TSPL in TIL as on March 31, 2020 as well as articulation of TSPL's intent to maintain majority shareholding and assist TIL in performing its obligations and discharge its liabilities to all lenders and debt holders in full and timely manner.

The above rating strengths are partially offset by the susceptibility to inherent risks in incipient business ventures.

Rating Sensitivities

Positive Factors: Not Applicable

Negative Factors:

- Change in strategic importance of TIL for the Tata Group
- Fall in the TSPL's shareholding (*direct/indirectly held through subsidiaries*) in TIL below 51%
- Any adverse change in the credit risk profile of TSPL

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoter group; strong financial flexibility

TIL is a part of 150-year-old Tata Group with TSPL being the largest shareholder at 53.62% held directly/indirectly as on March 31, 2020. The group has established presence across diverse sectors such steel, information technology, automobiles, retail, hospitality, power, etc. TIL enjoys superior financial flexibility which stems from its investments in the flagship entities of the Tata group and the marketability of brand "Tata". These equity investments and brand value provide ample financial flexibility to raise funds through several avenues, if needed. Also, with a robust balance sheet and low leverage, TSPL can easily access the financial market to raise funds through external borrowings, should the need arise. The presence of such strong and resourceful ultimate parent with vast experience renders strong financial flexibility to TIL. Any significant change in the ownership of TIL from the present holding would remain a key rating sensitivity.

Strategic importance of TIL to Tata Sons, and expectation of support from it

TIL is one of the investment vehicles of the Tata group which primarily focuses on conceiving/incubating new business ideas in technology sensitive emerging growth sectors such as aerospace & defence, health sciences, food-processing, education, advanced materials, etc. Owing to the investments held in the flagship companies of the Tata group with strong credit profile and central role played by TIL in the group's entry into several new business areas, the company remains strategically important to the Tata group which is reflected from the largest shareholding held by TSPL as on March 31, 2020.

In FY21, TIL is expected to raise Rs.500 crore of NCD out of Rs.6000 crore for making investment in the group companies. Given the strategic importance of TIL and the articulation of support, TSPL as the largest shareholder, will continue to monitor and assist TIL to ensure that the debt obligations are met in full and on time.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Successful track record in incubating new business ventures

TIL has incubated several businesses over the years, including auto ancillaries (Tata Autocomp Systems Limited; TACO), e-learning, telecom, logistics and supply chain solutions (Drive India Enterprise Solutions Limited). In May 2019, it concluded the sale of its entire stake in defence and aerospace company, Tata Advanced Materials Limited (TAML), to group entity Tata Advanced Systems Limited (TASL). Major businesses being promoted by TIL include Tata UniStore and Tata SmartFoodz. Once a venture scales to a self-reliant level, it is supported to continue on its growth journey. In some cases, it can forge partnerships with other Tata Companies. A prudent investment approach combined with timely divestment in incubated businesses has enabled TIL to operate with zero or minimal debt in the past decade. CARE expects TIL to continue to support the group companies' entry into new segments.

Diversified revenue source with majority revenue contributed by TIL's own operating segments

TIL has investments in various operating segments which operate in various fields such as e-commerce, healthcare, data analytics, machine learning and management consultancy services. TIL also generates revenues from these divisions apart from the dividend income on investment held in Tata group companies. The revenue contribution from each of the divisions which are housed in TIL has been increasing y-o-y for the past three years (FY18-FY20) which provides revenue diversification for TIL. Additionally, with increased focus on health, e-commerce and technological advancements, the revenue contribution from the said divisions is expected to increase going ahead.

Key Rating Weakness**Susceptibility to inherent risks in incipient business ventures accompanied with negative returns due to long gestation period**

TIL is a core investment company engaged in incubating early stage business ventures with high degree of financial, commercial, technological and regulatory risks. These risks stem from the different gestation periods, changes in regulatory framework, technological obsolescence, financial risks, negative to low returns which are inherent in starting a new venture. During the initial stages, the company has minimal revenue visibility and often generate very low to negative returns on the investment. Hence, returns from these investments may be volatile. Nonetheless, these risks are partially offset by strong parentage, access to capital, well qualified management and effective risk management framework.

Liquidity: Strong – The liquidity profile of TIL remains superior primarily driven by the financial flexibility emanating from being a part of Tata group and holding of investments in flagship companies of the group. The total investment value held by TIL in the group companies and in mutual funds stand at Rs.4263 crore as on September 30, 2020. Additionally, TIL has nil external borrowings as on September 30, 2020 on a standalone level. Though TIL plans to raise Rs.400- 500 crore of NCD for investment purpose, the capital structure is expected to remain comfortable. Furthermore, the said NCD is expected to have longer tenure.

Analytical approach: Standalone. Further the operational, financial and management linkages with the Tata Group are considered.

Applicable Criteria

[Criteria on rating outlook and credit watch](#)

[CARE's Policy on Definition of default](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology – Notching by factoring Linkages in Ratings](#)

[Liquidity analysis of Non-financial sector entities](#)

[Rating Methodology-Loans by holding companies](#)

About the Company:

Incorporated in April 07, 1945, Tata Industries Limited (TIL) is one of the investment vehicles of the Tata Group engaged in the incubation/promotion of Tata Group's entry in new business ventures. Earlier, TIL was registered as Non-Banking Financial Company (NBFC) with Reserve Bank of India (RBI). From April 2012 onwards, TIL is categorised as Core Investment Company (CIC) by RBI on account of its significant investments being made in other Tata companies and in the subsidiaries/divisions of TIL for new business, typically with a long gestation period. Besides carrying out investment activities, TIL has four operating divisions engaged in management consultancy, digital classrooms solutions, digital health business and data analytics business. TIL also operates through its subsidiaries/ associates/ joint ventures which are engaged in sectors such as non-conventional energy, food processing, e-commerce and health sciences. Tata Sons Private Limited (TSPL) collectively holds a total of 53.62% in TIL.

(Rs. Crore)

Brief Financials – TIL (Standalone)	FY19 (A)	FY20 (A)
Total income	220.21	265.82
PBILDT	-36.66	1.09
PAT	151.47	293.02
Overall Gearing	0.02	0.01
Interest Coverage (times)	NM	0.12

NM:Not Meaningful

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Non-convertible Debentures	-	-	-	-	6000.00	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debt	LT	-	-	-	1)Withdrawn (03-Apr-19)	1)CARE AAA (SO); Stable (12-Feb-19)	-
2.	Debentures-Non Convertible Debentures	LT	6000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Mar-20) 2)CARE AAA; Stable (03-Apr-19)	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument: not applicable**Annexure 4: Complexity level of various instruments rated for this Company:**

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures- Proposed Non-Convertible Debentures	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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