Tata Capital Limited

January 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Public Non-Convertible Debentures	3,649.12	CARE AAA; Stable	Assigned
Secured & Unsecured Non-Convertible Debentures	5,409.00	CARE AAA; Stable	Assigned
Perpetual Bonds	843.55	CARE AA+; Stable	Assigned
Subordinated Debt	2,074.55	CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1.
*Debt instruments have been transferred from Tata Capital Financial Service Limited (TCFSL) and Tata Cleantech Capital Limited (TCCL) pursuant to amalgamation with TCL becoming effective from January 01, 2024.

Credit Update

CARE Ratings Limited (CARE Ratings) has assigned the ratings to the various instruments of Tata Capital Limited (TCL) consequent to the transfer of debt facilities from Tata Capital Financial Services Limited (TCFSL) and Tata Cleantech Capital Limited (TCCL) to TCL on account of amalgamation of these entities. With a view to have a single unified non-banking finance company (NBFC) entity and greater operational efficiency, the Board of Directors of both TCFSL and TCCL had intimated the stock exchange on March 28, 2023, about their approval for the merger of TCFSL and TCCL respectively with TCL.

As per intimation made to stock exchanges dated January 01, 2024, in relation to the amalgamation of TCFSL and TCCL with TCL, by way of merger by absorption was approved by the National Company Law Tribunal benches at Mumbai vide the order dated November 24, 2023, and the fixation of January 1, 2024. Tata Capital Financial Services Limited, Tata Cleantech Capital Limited and Tata Capital Limited have each filed the Certified Copy of the NCLT Order vide Form INC-28 with the Registrar of Companies on January 01, 2024. Accordingly, Tata Capital Financial Services Limited and Tata Cleantech Capital Limited have amalgamated with Tata Capital Limited with effect from January 01, 2024.

Rationale and key rating drivers

The ratings of Tata Capital Limited (TCL) is based on consolidated business and financial risk profile of the company factoring in linkage with Tata Sons Private Limited (TSPL). TCL is the financial services arm of Tata Sons Private Limited (TSPL), which now houses Tata Capital Housing Finance Ltd. (TCHFL), Tata Securities Ltd., Tata Capital Pte. Ltd., Singapore and its subsidiaries. The financial services business is an integral part of the Tata group's business, which is evident through capital and managerial support to TCL and its subsidiaries. TCL has access to regular and need-based capital support from TSPL, both in form of equity and debt, which is then down streamed into its financial services subsidiaries. The company also benefits from business linkages given its access to the Tata group ecosystem as well as operational linkages such as shared branding, common functions such as treasury, IT and other support systems.

The rating further factors in TCL's long track record in financial services business, strong liquidity position supported by healthy recourse raising ability and financial flexibility, diversified loan portfolio, improved profitability, and asset quality metrics.

These rating strengths are partially offset by the company's concentration risk in the wholesale portfolio.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors: Factors that could individually/ collectively lead to positive rating action/upgrade:

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

- Not Applicable

Negative factors: **Factors that could individually/ collectively lead to negative rating action/downgrade:**

- Material dilution in ownership by, expected support from, and strategic importance to the Tata group
- Deterioration in the credit profile of TCL
- Material deterioration in asset quality of the TCL with consolidated Gross Non-performing Assets (GNPA) remaining above 6% on sustained basis.

Analytical approach:

Consolidated; TCL along with its financial subsidiaries given the high business and operational synergies. The ratings further derive strength from TCL's strong parentage and support from TSPL, (TSPL holds 94.55% stake in TCL). The financial services business housed under TCL is integral part of Tata group's business which is evident through demonstrated capital support to TCL. Besides capital, TCL benefits from managerial support and business linkages given its access to Tata Group Ecosystem as well as operational linkages such as shared branding.

Refer annexure 6 for list of entities considered for consolidation.

Outlook: Stable

The outlook is "Stable" on account of expectation of continued growth momentum supported by healthy capitalization and liquidity buffers.

Detailed description of the key rating drivers:

Key strengths

Strong parentage, shared brand equity and capital support from parent:

Tata Capital Limited is the financial services arm of the Tata group and is 94.56% held by Tata Sons Private Limited (TSPL) with remaining stake held by Bodies Corporate, Trusts, and individuals. Tata Capital and its subsidiaries are engaged in providing/supplying a wide array of services/products in the financial services sector and operates across various areas of business: commercial finance, retail loans, wealth services and distribution. The financial services business housed under TCL is an integral part of the Tata group's business, which is evident through capital and managerial support to TCL and its subsidiaries; both TCCL and TCFSL. TCL has access to regular and need-based capital support from TSPL which is further down streamed towards growth capital needs of its subsidiaries. In the last five years, TCL has received capital infusion to the tune of ₹5,000 crore, out of which ₹500 crore and ₹1,000 crore was infused during FY23 and H1FY24 respectively while ₹1,000 crore was infused during FY20, and ₹2,500 crore was infused during FY19.

With a view to have a single unified non-banking finance company (NBFC) entity and greater operational efficiency, the Board of Directors of both TCFSL and TCCL had intimated the stock exchange on March 28, 2023, about their approval for the merger of TCFSL and TCCL respectively with TCL. As per intimation made to stock exchanges dated January 01, 2024, in relation to the amalgamation of TCFSL and TCCL with TCL, by way of merger by absorption was approved by the National Company Law Tribunal benches at Mumbai vide the order dated November 24, 2023, and the fixation of January 1, 2024. Tata Capital Financial Services Limited, Tata Cleantech Capital Limited and Tata Capital Limited have each filed the Certified Copy of the NCLT Order vide Form INC-28 with the Registrar of Companies on January 01, 2024. Accordingly, Tata Capital Financial Services Limited and Tata Cleantech Capital Limited have amalgamated with Tata Capital Limited with effect from January 01, 2024. The scheme is unlikely to impact the credit profile of the company, as while arriving at the ratings, CARE Ratings Limited (CARE Ratings) has considered the consolidated performance of TCL and its subsidiaries.

Experienced management and board

TCL's board consist of eight members comprising of a Chairman, Managing director & CEO, two non-executive directors and four independent directors. The board includes two representatives from TSPL bringing in strategic oversight, industry expertise, strong corporate governance, and efficient risk management. Furthermore, with the Tata group being a technology & manufacturing conglomerate with decades of experience, the financial services business also benefits, especially infrastructure/corporate underwriting. At the helm of affairs of the company is Rajiv Sabharwal (Managing Director & CEO) having up to three decades of experience in the banking and financial services industry.

Comfortable capitalisation levels

TCL's consolidated tangible networth stood at ₹17,726 crore as of March 31, 2023 [PY.: ₹11,962 crore] with gearing of 6.39 times [PY.: 7.21 times]. The company's standalone capital adequacy ratio stood at 64% [PY.: 61%], above the regulatory requirement of 30%. The capital structure of the company derives strength from both demonstrated need-based capital support and financial flexibility resulting from its association with the Tata group. Going forward, CARE Ratings expects TCL's gearing to range between 5.5-6.5 times in the medium term.

Diversified resources profile

Given its association with the Tata group, TCL enjoys financial flexibility with access to funding from diversified lender base at competitive rates. As of March 31, 2023, TCL has diversified resource mix constituting of bank loans (43%, PY.: 40%), non-convertible debentures (38%, PY.: 40%), commercial papers (7%, PY.: 8%), subordinated debt (6%, PY.: 8%) and external commercial borrowing (6%, PY.: 8%). Going forward CARE Ratings expects the resource mix to continue being diversified through both bank borrowings and market borrowings.

Comfortable asset quality metrics

The asset quality of TCL has improved with consolidated gross non-performing assets (GNPA) at 1.71% as of March 31, 2023 [P.Y.: 1.90%] which further improved to 1.60% as of September 30, 2023. The improvement was led by the improved asset quality of retail segment; GNPA for the segment improved from 2.13% as of March 31, 2023 to 2.00% as of September 30, 2023. GNPA for corporate segment marginally increased to 1.38% as of September 30, 2023 from 1.24% as of March 31, 2023. The provision coverage ratio (PCR) of the company stood at healthy 73% as of September 30, 2023 [March 31, 2023: 71%] leading to NNPA to networth ratio of 2.24% [March 31, 2023: 2.60%] which is among the lowest in the industry and provides additional comfort.

Improving profitability metrics

During FY23, TCL's consolidated return on total assets (ROTA) increased to 2.29% [PY.: 1.96%]. Though the consolidated disbursements were stable at ₹1,52,522 crore [PY.: ₹1,55,107 crore], the NIM of the company improved to 10.05% [PY.: 9.90%] supported by change in product mix with increase in disbursement towards high-yielding retail loans (proportion of retail segment as percentage of loan book has increased to 55% as of March 31, 2023 from 52% as of March 31, 2022). Furthermore, the profitability was supported by reduction in credit cost (as a percentage of Average Total Assets) which reduced to 0.49% during FY23 [PY.: 1.18%] as the company was able to improve its asset quality.

The company also reported higher net gain on derecognition of associates at ₹815 crores [PY.: ₹57 crores] due to the group-level restructuring where TCL transferred its stake in one of the associate companies to TSPL. This led to increase in fee and other income (as percentage of ATA) to 1.01% [PY.: 0.78%]. Excluding net gain on derecognition of associates, consolidated profit before tax (PBT) increased by 26.7% to ₹2,975 crore on account of improved profitability from core operations. During H1FY24, TCL's consolidated ROTA and return on net worth (RONW) stood at 2.39% and 17.97% respectively.

Key weaknesses

Concentration risk in wholesale portfolio; albeit increase in share of retail loans

TCL's consolidated loan book has grown by 30% y-o-y to ₹1,16,756 crore as of March 31, 2023. Within the overall portfolio, retail and wholesale constituted 55% [PY.: 52%] and 45% [PY.: 48%] respectively as of March 31, 2023. While the retail portfolio is granular, the company is exposed to concentration risk within wholesale loans. As of March 31, 2023, the top 30 wholesale accounts constituted 11% and 71% of the consolidated loan book and networth respectively. Within wholesale loans, term loans contributed 37% followed by bill discounting/channel financing (21%), infrastructure loans (20%), builder loans (11%) with the remaining being corporate commercial vehicles and credit substitutes. The credit risk within the asset profile is mitigated by the company's strategy to diversify within the individual sub-segments. Going forward CARE Ratings expects retail and wholesale mix to be at 60:40 in the medium term at TCL level.

Liquidity: Strong

The liquidity profile of TCL is supported by strong financial flexibility. As of September 30, 2023, TCL's cash and liquid investments on consolidated basis stood at ₹7,142 crore as against the next four months against debt obligations of ₹21,362 crore. Undrawn borrowing commitments stood at ₹8,950 crore.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks

TCL's risk management policy includes framework for identification of internal and external risks specifically faced by the company including sustainability for ESG-related risk. The company has a subcommittee to supplement and monitor implementation of risk management framework for ESG-related risk management. Periodic monitoring and review are done by the subcommittee in this regards.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non-Banking Financial Companies

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

TSPL (Parent company)

TSPL is the principal holding company of the Tata group of companies and is the owner of the Tata brand and its associated Tata trademark. The company's operations are spread across various sectors including, information technology (IT), infrastructure, automotive, steel, aerospace & defence, financial services, tourism & travel, consumer & retail, trading & investments, and telecom & media.

TSPL is registered as a core investment company with the Reserve Bank of India. Also, with a robust balance sheet and low leverage, TSPL's financial flexibility arises from its ability to raise funds by sale or pledge of its large portfolio of investments. There are 18 publicly listed TATA enterprises under TATA Sons with a combined market capitalization of more than ₹22,00,000 crore.

TCL

TCL is a subsidiary of TSPL, which holds 94.56% in the company as on March 31, 2023. TCL, through its subsidiaries, offers retail and corporate loans. TCL is the primary financial services arm for the Tata group, helping the group to diversify its business. TCL being a strategically important entity in the entire gamut of the Tata Group Ecosystem, enjoys the strong support from the Tata Group through TSPL, in terms of both financial and managerial backing. The same could be demonstrated through the continuous capital infusion by TSPL in TCL. In the last five years, TCL has received capital infusion to the tune of ₹500 crore in FY23, ₹1,000 crorein FY20 and ₹2,500 crore in FY19.

TCL (consolidated) – Financial Summary

Brief Financials (₹ crore)	Mar-21 (A)	Mar-22 (A)	Mar-23 (A)	Sep-23 (UA)
Total Income	9,985	10,311	13,637	8,300
PAT	1,245	1,801	2,946	1,539
Gearing (x)	6.93	7.21	6.39	NA
Total Assets*	82,152	1,01,512	1,35,140	NA
Net NPA (%)	8.06	5.80	2.60	NA
ROTA (%)	1.51	1.96	2.49	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available' NA: Not Available

*Adjusted for intangible assets and deferred tax assets

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Secured & Unsecured Debentures-Non-Convertible Debentures	INE306N07DT7	20-Nov-14	9.36	20-Nov-24	95.00	CARE AAA; Stable

Secured & Unsecured Debentures-Non-Convertible Debentures	INE306N08367	19-Mar-19	8.93	17-Mar-34	590.00	CARE AAA; Stable
Secured & Unsecured Debentures-Non-Convertible Debentures	INE306N08375	23-Mar-20	NA	23-Mar-35	500.00	CARE AAA; Stable
Public Debentures-Non-Convertible Debentures	INE306N07LJ1	26-08-2019	NA	26-08-2024	97.71	CARE AAA; Stable
Public Debentures-Non-Convertible Debentures	INE306N07LK9	26-08-2019	NA	26-08-2024	340.92	CARE AAA; Stable
Public Debentures-Non-Convertible Debentures	INE306N07LL7	26-08-2019	NA	26-08-2027	92.48	CARE AAA; Stable
Public Debentures-Non-Convertible Debentures	INE306N07LM5	26-08-2019	NA	26-08-2027	600.39	CARE AAA; Stable
Public Debentures-Non-Convertible Debentures	INE306N08284	27-09-2018	NA	27-09-2028	29.55	CARE AAA; Stable
Public Debentures-Non-Convertible Debentures	INE306N08292	27-09-2018	NA	27-09-2028	341.85	CARE AAA; Stable
Public Debentures-Non-Convertible Debentures	INE306N08334	26-08-2019	NA	26-08-2029	4.65	CARE AAA; Stable
Public Debentures-Non-Convertible Debentures	INE306N08342	26-08-2019	NA	26-08-2029	172.70	CARE AAA; Stable
Secured & Unsecured Debentures-Non-	INE857Q07141	02-Jun-17	NA	03-Jun-24	10.00	CARE AAA; Stable

Convertible Debentures						
Secured & Unsecured Debentures-Non-Convertible Debentures	INE857Q07232	15-Jul-19	NA	13-Jul-29	140.00	CARE AAA; Stable
Secured & Unsecured Debentures-Non-Convertible Debentures	INE857Q07240	16-Oct-19	NA	16-Oct-29	60.00	CARE AAA; Stable
Secured & Unsecured Debentures-Non-Convertible Debentures	INE857Q07257	05-Dec-19	NA	05-Dec-24	25.00	CARE AAA; Stable
Secured & Unsecured Debentures-Non-Convertible Debentures	INE857Q07273	10-Jun-20	NA	10-Sep-27	175.00	CARE AAA; Stable
Public Debentures-Non-Convertible Debentures	Proposed	-	-	-	1,968.87	CARE AAA; Stable
Secured & Unsecured Debentures-Non-Convertible Debentures	Proposed	-	-	-	3814.00	CARE AAA; Stable
Bonds-Perpetual Bonds	INE306N08011	27-Mar-14	10.95	Perpetual	93.55	CARE AA+; Stable
Bonds-Perpetual Bonds	INE306N08060	16-Jul-15	9.99	Perpetual	100.00	CARE AA+; Stable
Bonds-Perpetual Bonds	INE306N08110	06-Jan-16	9.86	Perpetual	50.00	CARE AA+; Stable
Bonds-Perpetual Bonds	INE306N08128	02-Feb-16	9.86	Perpetual	50.00	CARE AA+; Stable
Bonds-Perpetual Bonds	INE306N08136	09-Feb-16	9.86	Perpetual	100.00	CARE AA+; Stable
Bonds-Perpetual Bonds	INE306N08144	23-Mar-16	9.80	Perpetual	100.00	CARE AA+; Stable

Bonds-Perpetual Bonds	INE306N08185	30-Jun-16	9.80	Perpetual	50.00	CARE AA+; Stable
Bonds-Perpetual Bonds	INE306N08219	13-Jan-17	9.00	Perpetual	10.00	CARE AA+; Stable
Bonds-Perpetual Bonds	INE306N08227	08-Mar-17	9.05	Perpetual	40.00	CARE AA+; Stable
Bonds-Perpetual Bonds	Proposed	-	-	-	250.00	CARE AA+; Stable
Bonds-Subordinated Debt	INE306N08029	26-Sep-14	10.15	26-Sep-24	100.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08037	07-Jan-15	9.35	07-Jan-25	35.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08045	30-Jan-15	9.32	30-Jan-25	75.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08052	31-Mar-15	9.37	31-Mar-25	200.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08078	22-Jul-15	9.25	22-Jul-25	90.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08151	30-Mar-16	9.17	30-Mar-26	200.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08193	11-Aug-16	8.92	11-Aug-26	200.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08201	26-Oct-16	8.45	26-Oct-26	15.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08326	16-Apr-19	NA	16-Apr-29	20.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08326	13-Jun-19	NA	16-Apr-29	65.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08326	26-Jun-19	NA	16-Apr-29	100.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE306N08326	29-Jul-19	NA	16-Apr-29	29.50	CARE AAA; Stable
Bonds-Subordinated Debt	INE857Q08016	10-May-19	NA	10-May-29	50.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE857Q08016	29-May-19	NA	10-May-29	50.00	CARE AAA; Stable

Bonds-Subordinated Debt	INE857Q08016	27-Jun-19	NA	10-May-29	50.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE857Q08024	13-Nov-19	NA	13-Nov-29	50.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE857Q08024	03-Feb-20	NA	13-Nov-29	100.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE857Q08024	24-Feb-20	NA	13-Nov-29	50.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE857Q08032	28-Jul-20	NA	26-Jul-30	50.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE857Q08032	14-Oct-20	NA	26-Jul-30	50.00	CARE AAA; Stable
Bonds-Subordinated Debt	INE857Q08032	17-Dec-20	NA	26-Jul-30	50.00	CARE AAA; Stable
Bonds-Subordinated Debt	Proposed	-	-	-	445.05	CARE AAA; Stable

*NA: Not Available

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Public Debentures-Non-Convertible Debentures	LT	3649.12	CARE AAA; Stable				
2	Secured & Unsecured Debentures-Non-Convertible Debentures	LT	5409.00	CARE AAA; Stable				
3	Bonds-Perpetual Bonds	LT	843.55	CARE AA+; Stable				
4	Bonds-Subordinated Debt	LT	2074.55	CARE AAA; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Perpetual Bonds	Highly Complex
2	Bonds-Subordinated Debt	Complex
3	Debentures-Non-Convertible Debentures	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities considered for consolidation as of January 01, 2024.

Company Name	Extent of consolidation	Rationale for consolidation
Tata Capital Ltd.	Full	Holding company
Tata Capital Housing Finance Ltd.	Full	Subsidiary
Tata Securities Ltd.	Full	Subsidiary
Tata Capital Pte Ltd., Singapore and its subsidiaries	Full	Subsidiary

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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