Press Release

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CARE assigns 'AA+' rating to the NCD issue of Tata Capital Ltd

CARE has assigned a '**CARE AA+' (Double A Plus)** rating to the Non-Convertible Debenture (NCD) issue of Tata Capital Ltd (TCL). Instruments with this rating are considered to offer high safety for timely servicing of debt obligations. Such instruments carry very low credit risk. CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

Instrument	Amount (Rs. crore)	Rating
Non Convertible Debenture issue	750	'CARE AA+'
Total	750	

Rating Rationale

The rating factors in TCL's strong parentage (TCL being a wholly owned subsidiary of Tata Sons Ltd.), the demonstrated support of the Tata group, both, by way of capital support as well as offering of in-house business opportunities (lending opportunities offered by the "Tata ecosystem" comprising dealers/vendors and other business constituents/relationships affiliated with the group companies). The rating also factors in the brand equity of the parent company which would aid TCL in scaling up its volumes beyond the group related business as well as render it with strong resource raising capabilities.

The rating is however constrained by TCL's relatively limited track record of operations, it's ability to lend competitively given the presence of established players in an intensely aggressive corporate and retail lending market and its ability to maintain asset quality with rising business volumes.

Company Profile

Formerly known as 'Primal Investments and Finance Limited', TCL is a wholly owned subsidiary of Tata Sons Limited. TCL provides a wide spectrum of Financial Services – both fund based as well as non-fund based. TCL currently has the following business verticals viz. Retail Finance, Construction Equipment Finance, Small and Medium Enterprises lending etc. The company is yet to build its branch network and largely shares the branch network of Tata Motors Finance Ltd (TMFL), a group finance company. Both the companies plan to share the branch distribution network, with clear bifurcation of lending lines.

The company has yet to achieve economies of scale, FY08 being the first year of commercial operations (lending operations commenced in Sept. 2007). As a result, the company exhibits low profitability parameters. Total income and PAT for FY08 stood at Rs.183.96 cr and Rs.9.21 cr respectively.

TCL has managed to more than double its Net Interest Income as well as improve its spreads during April-December 2008 (on an annualized basis). However, given the high level of initial set-up as also the high borrowings (borrowings increased significantly during the period) and operating expenses, the company has made a loss of about Rs 23 crore during 9MFY09.

TCL is in a position to capitalize on its strengths, given its strong parentage and brand equity as well as the group synergies enjoyed by it. However, the profitability parameters of TCL are likely to remain subdued over the short to medium term until the company achieves economies of scale and its operations stabilise. Also considering the intensely competitive nature of retail and corporate finance industry as well as the current economic slowdown, the ability of the company to protect its spreads and maintain its asset quality remains to be seen.

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