

June 17, 2009

CARE ASSIGNS 'AA+' & PR1+ RATING TO THE BANK LOAN FACILITIES OF TATA CAPITAL LTD.

CARE has assigned a '**CARE AA+**' [**Double A plus**] rating to the long-term facilities of Tata Capital Ltd. This rating is applicable to facilities having a tenure of more than one year. Facilities with this rating are considered to offer high safety for timely servicing of debt obligations. Such facilities carry very low credit risk.

Further, CARE has assigned a '**PR1+**' [**PR One plus**] rating to the short-term facilities of Tata Capital Ltd. This rating is applicable to facilities having a tenure upto one year. Facilities with this rating would have strong capacity for timely payment of short-term debt obligations and carry lowest 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
Long term Bank loan facilities	3085	CARE AA+
Short term Bank facilities	900	PR1+
Total	3985	

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.

Analyst Contact

Name: Milind Gadkari

Tel # 022- 67543466

Mobile # 9821712848

Email: Milind.gadkari@careratings.com

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.