

## Tata Industries Limited

March 05, 2020

### Ratings

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Proposed Non-Convertible Debt 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 rating assigned to the proposed debt instrument of Tata Industries Limited (TIL) factors in TIL being an investment holding company in addition to incubating new business ventures, strategic importance of TIL to the Tata Sons Private Limited (TSPL) which is its major shareholder, support expected from TSPL for discharging its debt obligations, TIL's strong financial flexibility and successful track record in incubating new ventures.

The rating strengths however, are tempered by TIL's exposure to inherent risks associated in incubating new business ventures.

### Rating Sensitivities

Negative Factors:

- Any change in dominant shareholding of Tata Sons Private Limited
- Discontinuation of support from Tata Sons Private Limited

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### ***Experienced and resourceful promoter group; strong financial flexibility***

Tata Industries Limited is part of the 150 year old Tata Group. The group has established its presence across diverse sectors such as steel, information technology, automobiles, retail, hospitality, power, etc. The investments in these sectors are driven by the group's flagship investment company TSPL. TSPL enjoys exceptional financial flexibility which arises from its ability to raise funds by sale or pledge of its large portfolio of investments and through regular dividend income. As of December 31, 2019, the market value of the investments stood around Rs.6,85,000 crore. Further, with a robust balance sheet and low leverage, TSPL can easily access the financial markets to raise funds through external borrowings, should the need arise.

##### ***Strategically important to TSPL***

TIL is promoted and owned by TSPL, TCL and other Tata Group entities. The company primarily focuses on conceiving new business ideas in technology sensitive emerging growth sectors such as aerospace & defence, health sciences, food-processing, education, advanced materials, etc. Once the venture is conceived and scaled to a self-reliant level, the venture is supported to continue on their growth journey. In some cases, they could forge partnerships with other Tata Companies. Certain Ventures, which don't scale or don't have strategic fit, are considered for possible sale/divestment. TIL also provides management and strategic consultancy services along with data analytics services primarily to the entities within the group. TIL holds significant investments in Tata group companies and its subsidiaries/ associates/ Joint ventures. Total value of these investments were Rs.4,271.61 crore on December 31, 2019, as against Rs.3,854.40 crore as on March 31, 2019. TIL is expected to raise the proposed NCDs for investing into new business/ ventures and also for increasing its investments in Tata group companies. CARE believes TIL being strategically important to the group will continue to receive financial, operational and managerial support from TSPL which is a key rating monitorable.

##### ***Successful track record in incubating new business ventures***

With the Board comprising of Senior Members of Tata group along with strong and experienced management team, TIL has successfully incubated several businesses in field of technology, auto ancillary, defence, Telecom, logistics and supply chain solutions such as Tata Autocomp Systems Private Limited, Tata Advanced Material Systems Limited, Drive India Enterprise Solutions Limited, Information Technology Park, Bangalore etc. These businesses were incubated by TIL, and some of them were divested/sold and proceeds were utilised for other new ventures. Currently, TIL is presently focusing on some of its new ventures such as smart foods, e-retail (Tata CliQ), digital classrooms, data analytics and health.

##### **Key Rating Weakness**

##### ***Exposed to inherent risks of new business ventures***

TIL conceives, invests, develops and scales up new business ventures. The company invests in different products/ services spread across sectors. TIL is exposed to the inherent risks of new business ventures. These risks stem from the different

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

gestation periods, changes in regulatory framework, technological obsolescence, financial risks, negative to low returns which are seen sometimes while starting a new venture. However, the risk to a large extent is offset by well qualified management, Tata group's access to capital market, its well qualified and experienced management and effective risk management framework.

#### **Negative to low returns**

TIL invests heavily during the initial leg of the business cycle of a new product/ service and continues to invest to scale it up. Usually new product/ service companies have relatively high degree of financial, commercial, technological and regulatory risk. During the initial stages, the company has minimal revenue visibility and often generate very low to negative returns on the investment. TIL generates returns from dividends and other Income, and in some cases by sale/divesting its stake in the company. During FY19, TIL sold Tata Interactive Systems to MPS Limited. Whereas in 9MFY20, it divested its Subsidiary Tata Advanced Materials Limited to Tata Advanced Systems Limited.

**Liquidity: Strong** – TIL derives its major support from TSPL. The company has financial flexibility to raise funds by sale of its investments, mainly shares in Tata group. As on December 31, 2019, the company has cash and cash equivalents of Rs.540 crore. Liquidity of TIL is further supported by TSPL's intention to assist TIL through maintaining its majority shareholding and its assistance to TIL for timely debt servicing.

**Analytical approach:** The rating factors in linkages with Tata Sons Private Limited which is an investment arm and is strategically important to the Tata group. TSPL has articulated intent to maintain its shareholding in TIL and assist TIL in case it needs to arrange funds in order to discharge its liabilities to debt holders and lender in fully and timely manner.

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE's policy on default recognition](#)

[Rating Methodology: Consolidation and factoring linkages in ratings](#)

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

[Rating of loans by investment holding companies](#)

#### **About the Company:**

Tata Industries Limited (TIL) was incorporated in 1945 and is registered as a Core Investment Company (CIC), since April 2012, which is Systemically Important (SI), with Reserve Bank of India (RBI) on account of its investments made primarily in Tata Group companies. Prior to being registered as CIC, TIL was registered as NBFC. Since March 27, 2019, TIL has become a Joint Venture company of Tata Sons Private Limited (TSPL) and Tata Chemicals Limited (TCL) as the partner shareholders. TIL invests in group companies which are engaged in high technology and emerging sectors such as information technology, aerospace & defence, e-commerce, health sciences, etc.

Apart from the investing activities, TIL also has following operating divisions

- Tata Class Edge (TCE) – providing educational content to educational institutions
- Tata Strategic Management Group (TSMG) – providing consultancy services to Tata Group
- Tata Digital Health (DHP) – setting up a platform for leveraging the power of digital technology to empower healthcare providers and consumers in India
- Tata Insights & Quants (TIQ) – setting up a platform for providing data analytics services for various Tata Group companies

TIL also operates through its subsidiaries/ associates/ joint ventures which are engaged in sectors such as non-conventional energy, aerospace & defence, food processing, e-commerce and health sciences.

Tata Sons Private Limited (TSPL) collectively holds a total of 53.62% in TIL.

(Rs. Crore)

<b>Brief Financials – TIL (Standalone)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total income	204.28	220.22
PBILD	-24.54	-36.64
PAT	-72.13	151.47
Overall Gearing	0.05	0.05
Interest Coverage (times)	NM	NM

A: Audited

#classified as per CARE standards

### About Tata Sons Private Limited

The company was incorporated in 1917 and is registered as a CIC with the RBI. TSPL is the promoter in major Tata Group companies and is the owner of the Tata brand and the associated intellectual property. These are used by the group companies under a license from TSPL. About 66% of TSPL is held by philanthropic trusts endowed by members of the Tata family. The largest of these trusts are the Sir Dorabji Tata Trust and the Sir Ratan Tata Trust.

Dividend income, income from providing services (including brand subscription) and profit on sale of investments are the primary sources of revenue for the company. As of Dec 31, 2019, the market value of TSPL's quoted investments stood around Rs.6,85,000 crore.

(Rs. Crore)

Brief Financials – TSPL (Standalone)	FY18 (A)	FY19 (A)
Total income	27,974	20,229
PAT	879	1,144
Interest Coverage (times)	1.44	1.43
Total Assets (net off Deferred Tax Assets and Intangible assets)	72,846	77,891
ROTA (%)	1.20	1.52

A: Audited

#classified as per CARE standards

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures - Proposed	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debt	LT	-	-	1)Withdrawn (03-Apr-19)	1)CARE AAA (SO); Stable (12-Feb-19)	-	-
2.	Debentures-Non Convertible Debentures – Proposed	LT	6000.00	CARE AAA; Stable	1)CARE AAA; Stable (03-Apr-19)	-	-	-

#### Annexure-3: Detailed explanation of covenants of the rated instrument - NA

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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