



CREDIT RATING

The credit rating agency, CARE Ratings ("CARE"), has revised the Rating outlook for Tata Capital Financial Services Limited from "AA+ Stable" to "AA+ Positive".

A copy of the Rating letter dated July 3, 2018, alongwith the Rating Rationale issued by CARE, is enclosed.

TATA CAPITAL FINANCIAL SERVICES LIMITED

Corporate Identity Number U67100MH2010PLC210201

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Tata Capital Financial Services Limited

July 03, 2018

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	1,085	CARE AA+; Positive [Double A Plus; Outlook: Positive]	Reaffirmed
Non-Convertible Debentures	3,464	CARE AA+; Positive [Double A Plus; Outlook: Positive]	Reaffirmed
Subordinated Debt	2,000	CARE AA+; Positive [Double A Plus; Outlook: Positive]	Reaffirmed
Perpetual Debt	600	CARE AA; Positive [Double A; Outlook: Positive]	Reaffirmed
Total Facilities	7,149 (Rupees Seven Thousand One Hundred And Forty Nine crore only)		

Details of instruments/facilities in Annexure-1

CARE has rated the aforesaid Perpetual Debt after taking into consideration their increased sensitivity to the Capital Adequacy Ratio (CAR), capital raising ability and profitability during the long tenure of the instruments. The rating factors in the additional risk arising due to the existence of the lock-in clause in the instruments. Any delay in payment of interest/principal (as the case may be) following invocation of the lock-in-clause, would constitute as an event of default as per CARE's definition of default and as such these instruments may exhibit a somewhat sharper migration of rating compared to other debt instruments.

Detailed Rationale & Key Rating Drivers

The ratings factor in TCFSL's strong parentage (TCFSL being wholly-owned subsidiary of Tata Capital Ltd., which in turn is a subsidiary of Tata Sons Limited) and brand equity associated with the Tata Group, experienced management team drawn from parent and strong financial flexibility enjoyed by TCFSL by virtue of being part of Tata group. The ratings also factor in adequate capitalization and relatively high gearing, moderate profitability and asset quality parameters of the company. Continued parentage and support from Tata group, capitalization, profitability and asset quality are the key rating sensitivities.

Outlook: Positive

The 'Positive' outlook reflects expectation of capital support from the parent and increasing proportion of retail assets in its portfolio. The 'Positive' outlook also considers the expectation of TCFSL showing improvement in profitability and asset quality parameters over the medium term along with overall portfolio growth and further seasoning. The outlook may be revised to 'Stable' if TCFSL's gearing levels see any substantial adverse movement or it reports a substantial moderation in profitability or asset quality parameters.

Detailed description of the key rating drivers

Key Rating Strengths

Strong Parentage

Tata Capital Limited (TCL) being subsidiary of Tata Sons Ltd., shares the brand equity of the Tata group. Tata Sons Ltd. holds 93.22% stake in TCL as on March 31, 2018. TCL is the financial services arm of the Tata Group. It helps the group in diversifying its business in financial services domain. TCFSL is a wholly owned subsidiary of TCL. TCFSL provides a wide spectrum of products in the retail and corporate finance segment. The strength of the Tata group helps in mobilizing funds from various sources at cost effective rates.

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

Shared brand equity

TCFSL enjoys the Tata brand advantage. The rating also factors expected managerial and financial support from TCL. TCFSL also derives support from the Tata group as it sources some part of business from the 'Tata Ecosystem'.

Experienced Management and board

TCFSL is currently headed by Mr. Kusal Roy, who is the Managing Director of the company. Board of Directors of TCFSL includes eminent individuals with wide experience in business, administration and financial services. Management team of TCFSL is well qualified and has experience in various businesses and functional areas for NBFCs.

Diversified resource profile and comfortable liquidity

The company's resource profile is well diversified with term loans, cash credit, working capital demand loans, overdraft facilities from banks, market borrowings in the form of NCDs, subdebt, perpetual debt and CPs and inter-corporate deposits. Of the total borrowings as on March 31, 2018, bank borrowings (including term loans, outstanding CC and OD facility) constituted 30%, NCD (including subordinated debt & perpetual) 48%, commercial paper 20% and ICDs of 2%.

As per ALM statement as on March 31, 2018, had negative cumulative mismatches in short and medium term buckets. However, the company has adequate unutilized bank lines which provide comfort to the liquidity position. Also being part of the Tata group helps in mobilizing of funds on a cost effective basis.

Adequate capitalization

TCFSL's capitalization levels remain average with total CAR and Tier I CAR at 16.68% (FY17: 16.07%) and 12.68% (FY17: 11.78%), respectively as on March 31, 2018. Higher Tier I capital provides the company sufficient headroom to raise Tier II capital in order to fund the asset book growth in the coming years. As indicated by the management, during FY19, TCL is likely to infuse additional equity by way of CCPS to improve capitalization levels of TCFSL.

At TCL consolidated levels, the company reported adjusted gearing levels (post exclusion of non-convertible preference shares of Rs.2322 crore from tangible net worth and inclusion of the same in company's borrowings) at 12.86 times as on March 31, 2018 (PY: 12.67 times).

Key rating weaknesses**Average Profitability**

During FY18, TCFSL's outstanding net portfolio grew by 17% y-o-y and stood at Rs.36,319 crore. The company's total income stood at Rs.4556 crore in FY18 as against Rs.4192 crore in FY17. Profitability showed improvement in FY18 due to moderate operating expenses and lower provisioning/write off costs. Overall, the company reported PAT of Rs.483 crore in FY18 as against PAT of Rs.216 crore in FY17. As a result, TCFSL's ROTA improved to 1.35% in FY18 as compared to 0.69% in FY17. The Company's NIM improved during FY18 by 25 bps to 4.49% due to overall decline in borrowing cost..

Moderate asset quality

The company reported GNPA and NNPA ratio (on 90 d-p-d) of 3.32% and 0.90% as on March 31, 2018 as against GNPA and NNPA ratio (on 120 d-p-d) of 4.94% and 1.22% as on March 31, 2017. At absolute levels, company's GNPA stood at Rs.1224 crore as on March 31, 2018 as against Rs.1591 crore as on March 31, 2017. The company's NNPA ratio reduced significantly on account of higher provision coverage over past few years. Consequently, the company's NNPA to Tangible net worth ratio improved to 7.14% as on March 31, 2018 (PY: 10.98%).. At TCL consolidated levels, GNPA and NNPA stood at 2.40% (PY: 3.41%) and 0.70% (PY: 0.92%), respectively as on March 31, 2017.

Concentration Risk

TCFSL faces concentration risk on account of large ticket exposure in its corporate finance portfolio. Top 5 exposures as a percentage of outstanding portfolio and tangible net worth as on March 31, 2018 stood at 3.56% and 28.34%, respectively. However in terms of portfolio mix, TCFSL has retail segment which contributed around 44% in FY18.

Analytical approach: CARE has analyzed TCFSL on the basis of standalone financials; however, the rating also takes into consideration the parentage of TCL

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Non-Banking Financial Companies](#)

[Financial ratios – Financial Sector](#)

[Factor Linkages in ratings](#)

[Policy on withdrawals of ratings](#)

About the Company

TCFSL is a wholly owned subsidiary of Tata Capital Limited (TCL) which in turn is a subsidiary of Tata Sons Limited (Tata Sons Limited holds a stake of 93.22% in TCL as on March 31, 2018). TCFSL is a systemically important non deposit taking Non-Banking Finance Company (NBFC). Net loan portfolio (including credit substitutes) of TCFSL stood at Rs.36,319 crore as on March 31, 2018. As on March 31, 2018, Retail loan book comprised 44% (P.Y.: 42%) of the total portfolio with the remaining 56% (P.Y.: 58%) made up of corporate loan portfolio. Retail portfolio is made up of personal loans, loan against property, business loans, consumer durable loans, auto loans and tractor loans. Corporate portfolio comprises term loans, loan against shares, supply chain financing, leasing, construction equipment financing and project financing. The company also provides credit cards (in partnership with SBI Cards and Payments Services Ltd.) and wealth management advisory services.

Brief Financials (Rs. crore) – Standalone	FY17 (Audited)	FY18 (Audited)
Total Income	4192	4556
PAT	216	483
Interest coverage (times)	1.15	1.33
Total Tangible Assets	32676	38882
Net NPA (%)	1.22	0.90
ROTA (%)	0.69	1.35

Profile of Tata Capital Limited (TCL)

TCL is primarily a holding company, holding investments in its subsidiaries and other group companies and is the arm of Tata Group for financial services business. TCL is a subsidiary of Tata Sons Limited, which holds 93.22% in the company as on March 31, 2018. Tata Capital, through its subsidiaries, caters to the requirements of retail and corporate customers with different products and services. The lending portfolio of TCL grew by 21% in FY18 and stood at Rs.60,494 crore as on March 31, 2018 of which lending portfolio of Tata Capital Financial Services Limited (TCFSL) and Tata Capital Housing Finance Limited (TCHFL) accounted for 60% and 35%, respectively. The remaining 5% of the portfolio was accounted for by TCCL. At TCL consolidated levels, GNPA and NNPA stood at 2.4% (PY: 3.4%) and 0.7% (PY: 0.9%), respectively as on March 31, 2018.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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/outlooks 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.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	17-Aug-11	10.10%	17-Aug-18	4	CARE AA+;Positive
Debentures-Non Convertible Debentures	23-Sep-11	10.15%	23-Sep-18	10	CARE AA+;Positive
Debentures-Non Convertible Debentures	21-Oct-11	10.15%	21-Oct-18	15	CARE AA+;Positive
Debentures-Non Convertible Debentures	20-Nov-14	9.36%	20-Nov-24	95	CARE AA+;Positive
Debentures-Non Convertible Debentures	16-Dec-15	8.65%	16-Dec-20	10	CARE AA+;Positive
Debentures-Non Convertible Debentures	8-Jan-16	8.65%	8-Jan-19	25	CARE AA+;Positive
Debentures-Non Convertible Debentures	16-Mar-16	8.75%	16-Mar-21	7	CARE AA+;Positive
Debentures-Non Convertible Debentures	21-Mar-16	8.80%	19-Mar-21	10	CARE AA+;Positive
Debentures-Non Convertible Debentures	31-Mar-17	7.91%	31-Mar-22	40	CARE AA+;Positive
Debentures-Non Convertible Debentures	22-Jan-18	8.25%	20-Jan-23	48	CARE AA+;Positive
Debentures-Non Convertible Debentures (Proposed)	-	-	-	3200	CARE AA+;Positive
Bonds-Subordinated	4-Aug-09	10.50%	4-Aug-19	39	CARE AA+;Positive
Bonds-Subordinated	9-Sep-09	10.25%	9-Sep-19	170	CARE AA+;Positive
Bonds-Subordinated	28-Oct-09	10.25%	28-Oct-19	74	CARE AA+;Positive
Bonds-Subordinated	28-Oct-09	9.80%	28-Oct-19	79	CARE AA+;Positive
Bonds-Subordinated	30-Nov-09	ZCB	30-Nov-19	57	CARE AA+;Positive
Bonds-Subordinated	15-Dec-09	10.25%	15-Dec-19	286	CARE AA+;Positive
Bonds-Subordinated	18-Dec-09	9.80%	18-Dec-19	150	CARE AA+;Positive
Bonds-Subordinated	24-Dec-09	9.95%	24-Dec-19	50	CARE AA+;Positive
Bonds-Subordinated	26-Sep-14	10.15%	26-Sep-24	100	CARE AA+;Positive

Bonds-Subordinated	7-Jan-15	9.35%	7-Jan-25	35	CARE AA+;Positive
Bonds-Subordinated	30-Jan-15	9.32%	30-Jan-25	75	CARE AA+;Positive
Bonds-Subordinated	31-Mar-15	9.37%	31-Mar-25	200	CARE AA+;Positive
Bonds-Subordinated	22-Jul-15	9.25%	22-Jul-25	90	CARE AA+;Positive
Bonds-Subordinated	30-Mar-16	9.17%	30-Mar-26	200	CARE AA+;Positive
Bonds-Subordinated	11-Aug-16	8.92%	11-Aug-26	200	CARE AA+;Positive
Bonds-Subordinated	26-Oct-16	8.45%	26-Oct-26	15	CARE AA+;Positive
Bonds-Subordinated (Proposed)	-	-	-	180	CARE AA+;Positive
Debt-Perpetual Debt	15-Nov-10	10.00%	Perpetual	0.75	CARE AA+;Positive
Debt-Perpetual Debt	14-Jan-11	10.00%	Perpetual	0.9	CARE AA+;Positive
Debt-Perpetual Debt	5-May-11	10.00%	Perpetual	1	CARE AA+;Positive
Debt-Perpetual Debt	8-Aug-11	11.25%	Perpetual	3.05	CARE AA+;Positive
Debt-Perpetual Debt	28-Sep-11	10.75%	Perpetual	0.5	CARE AA+;Positive
Debt-Perpetual Debt	7-Nov-11	10.75%	Perpetual	0.25	CARE AA+;Positive
Debt-Perpetual Debt	27-Mar-14	10.95%	Perpetual	93.55	CARE AA+;Positive
Debt-Perpetual Debt	16-Jul-15	9.99%	Perpetual	100	CARE AA+;Positive
Debt-Perpetual Debt	6-Jan-16	9.86%	Perpetual	50	CARE AA+;Positive
Debt-Perpetual Debt	2-Feb-16	9.86%	Perpetual	50	CARE AA+;Positive
Debt-Perpetual Debt	9-Feb-16	9.86%	Perpetual	100	CARE AA+;Positive
Debt-Perpetual Debt	23-Mar-16	9.80%	Perpetual	100	CARE AA+;Positive
Debt-Perpetual Debt	30-Jun-16	9.80%	Perpetual	50	CARE AA+;Positive
Debt-Perpetual Debt	13-Jan-17	9.00%	Perpetual	10	CARE AA+;Positive
Debt-Perpetual Debt	8-Mar-17	9.05%	Perpetual	40	CARE AA+;Positive
LT-Bank Facility - CC	-	-	1 year	935	CARE AA+;Positive
LT-Bank Facility (Proposed)	-	-	1 year	150	CARE AA+;Positive

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Subordinated	LT	2000.00	CARE AA+; Positive	-	1)CARE AA+; Stable (9-Oct-17)	1)CARE AA+; Stable (26-Dec-16) 2)CARE AA+ (07-Nov-16)	1)CARE AA+ (02-Nov-15)
2.	Debentures-Non Convertible Debentures	LT	3464.00	CARE AA+; Positive	-	1)CARE AA+; Stable (9-Oct-17)	1)CARE AA+; Stable (26-Dec-16) 2)CARE AA+ (07-Nov-16)	1)CARE AA+ (02-Nov-15)
3.	LT-Bank Facility	LT	1085.00	CARE AA+; Positive	-	1)CARE AA+; Stable (9-Oct-17)	1)CARE AA+; Stable (26-Dec-16) 2)CARE AA+ (07-Nov-16)	1)CARE AA+ (02-Nov-15)
4	Perpetual Debt	LT	600	CARE AA; Positive	-	1)CARE AA; Stable (9-Oct-17)	1)CARE AA; Stable (26-Dec-16) 2)CARE AA+ (07-Nov-16)	1)CARE AA (02-Nov-15)

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