

Tata Cleantech Capital Limited

July 03, 2018

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Subordinated debt	100	CARE AA+; Positive [Double A Plus; Outlook: Positive]	Reaffirmed
Non-convertible debenture	300	CARE AA+; Positive [Double A Plus; Outlook: Positive]	Reaffirmed
Total Facilities	400 (Rupees Four Hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating factors in the strong parentage (TCCL being a subsidiary of Tata Capital Limited, which in turn is a subsidiary of Tata Sons Ltd.), experienced management and board, comfortable asset quality, average profitability and comfortable capital adequacy of TCCL. The rating also takes into account the advantage enjoyed by TCCL due to 'Tata' brand and integrated treasury operations with Tata Capital Limited. The rating takes into account the fact that financing renewable energy is a relatively new business area for Tata group, concentration risk in the portfolio and low track record of operations. Continued parentage and support from Tata group, capitalization, profitability and asset quality are the key rating sensitivities.

Outlook: Positive

The 'Positive' outlook on rating reflects expectation of capital support from the parent and TCCL maintaining comfortable 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 TCCL reports a substantial moderation in profitability or asset quality parameters.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage

TCCL is a subsidiary of Tata Capital Limited (TCL) which holds a stake of 80.5% in the company as on March 31, 2018. TCL, in turn, is a subsidiary of Tata Sons Ltd. which holds a stake of 93.22% 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. International Finance Corporation (IFC) (member of World Bank group) holds 19.5% stake in TCCL. The strength of the Tata group and IFC helps in mobilizing funds from various sources at cost effective rates.

Shared brand

TCCL enjoys the Tata brand advantage and the rating also factors expected managerial and financial support from TCL.

Experienced Management and board

TCCL has a strong Board of Directors with Mr. Leeladhar, ex deputy governor of RBI. Mr. Rajiv Sabharwal, is also on the Board as Non-Executive Director. Mr. Pradeep Bandivadekar, is also part of the Board. The board also includes Ms. Padmini Khare as Independent Director. The management team of TCCL is led by Mr. Manish Chourasia (Managing Director) having more than 20 years of experience in debt origination, credit risk assessment and syndication.

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

Comfortable capital adequacy

The company has seen a y-o-y growth of 54% in its outstanding portfolio during FY18. The company reported CAR of 19.53% (Mar. 31, 2017: 23.01%) with a Tier I CAR of 19.15% (Mar. 31, 2017: 22.72%) as on March 31, 2018. By virtue of the strong parentage, TCCL would get adequate capital support, if required, for business growth in future. Also, there is significant room for raising Tier II capital on account of higher proportion of Tier I capital in overall capital adequacy ratio. At TCL consolidated levels, the company stands moderately capitalized with adjusted gearing levels (post exclusion of non-convertible preference shares of Rs.2322 crore from tangible networth and inclusion of the same in company's borrowings) at 12.86 times as on March 31, 2018 (PY: 12.67 times).

Comfortable asset quality but unseasoned portfolio

TCCL has commenced business in FY14 and the portfolio stood at Rs.3085 crore as on March 31, 2018. The company has seen significant growth in its loan book over the previous three years. On account of long tenure of infrastructure loans and its recent origination, outstanding loan exposures are largely unseasoned. As on March 31, 2018, the company did not report any NPAs. 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.

Average profitability

Over the previous four years, company has grown its loan portfolio significantly on a low base. Outstanding loan portfolio as on March 31, 2018 stood at Rs.3,085 crore and comprised of wind projects (58%), solar projects (34%) and others (8%). The company also had non-fund based exposure of Rs.209 crore as on March 31, 2018.

With growth in loan portfolio, company's profitability has also improved over the years, albeit on a low base. During FY18, the company reported PAT of Rs.79 crore on total income of Rs.276 crore as against PAT of Rs.56 crore on total income of Rs.180 crore during FY17. The company reported RoTA of 3.09% in FY17 (FY17: 2.81%).

Diversified resource profile and comfortable liquidity

The company's resource profile is well diversified with loans from banks and other financial institutions, market borrowings in the form of NCDs and CPs and inter-corporate deposits. As on March 31, 2018, the liquidity profile of the company shows negative cumulative mismatches in various time buckets. However, the company has adequate unutilized lines of credit from various banks as on March 31, 2018 which can be drawn down to meet liquidity requirements. Also being a subsidiary of TCL and being part of Tata group will help in mobilizing funds at cost effective rates.

Key Rating Weaknesses**Short track record of operations**

TCCL commenced lending in FY14. The company has grown its loan portfolio significantly on a low base in the previous two years with outstanding portfolio growing from Rs.671 crore as on March 31, 2015 to Rs.3,085 crore as on March 31, 2018. The company has short track record of operations given the recent commencement of operations.

Financing renewable energy projects – a relatively new area of operations

The two subsidiaries of TCL which are into the business of financing assets are Tata Capital Financial Services Limited and Tata Capital Housing Finance Limited. These entities are into business segments like funding of projects, construction equipment financing, supply chain financing, corporate loans, auto loans, personal loans, loan against property, tractor loans and housing loans. Financing of renewable energy projects is a relatively newer area for Tata group and the performance in this segment is yet to be seen. However some portfolio of renewable energy was being originated by TCFSL in the past.

Concentration risk

The total loan book stood at Rs.3,085 crore at the end of March 2018 and is made up of exposure to 80 project exposures. Top 5 exposures accounted for 41% of the total loan book and 189% of tangible net worth as on March 31, 2018. Top 10 exposures accounted for 65% of the total loan book and 300% of tangible net worth as on March 31, 2018. Any stress in the top exposures would create a big impact on the asset quality and profitability of TCCL. There is also sector specific concentration with 58% and 34% of the outstanding portfolio in wind and solar energy projects as on March 31, 2018.

Analytical approach: CARE has analyzed TCCL 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](#)

About the Company

Tata Cleantech Capital Limited (TCCL) is registered with the RBI as a systemically important Non Deposit Accepting Non-Banking Financial Company (got the status of NBFC-IFC in October 2015) and engaged in the business of providing finance and advisory services for projects in renewable energy, energy efficiency, waste management and water management. Going forward, Tata Capital group will book most of the new infrastructure finance business in this entity. TCCL is a subsidiary of Tata Capital Limited, which holds a stake of 80.5% and the remaining stake is held by International Finance Corporation (IFC). The company started operations in FY14 and the loan portfolio stood at Rs.3,085 crore as on March 31, 2018. The loan portfolio consists of projects in the areas of Wind Energy, Solar Energy, Small Hydro Energy, power transmission and water management. Mr. Manish Chourasia is the Managing Director of the company.

Brief Financials (Rs. crore) – Standalone	FY17 (Audited)	FY18 (Audited)
Total Income	180	276
PAT	46	79
Interest coverage (times)	1.70	1.85
Total Assets	2019	3105
Net NPA (%)	Nil	Nil
ROTA (%)	2.81	3.09

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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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	14-Jun-16	8.80%	14-Jun-19	25.00	CARE AA+; Positive
Debentures-Non Convertible Debentures	17-May-17	8.12%	15-May-20	50.00	CARE AA+; Positive
Debentures-Non Convertible Debentures	02-Jun-17	8.11%	03-Jun-24	10.00	CARE AA+; Positive
Debentures-Non Convertible Debentures (Proposed)	-	-	-	215.00	CARE AA+; Positive
Debt-Subordinate Debt (Proposed)	-	-	-	100.00	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.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA+; Positive	-	1) CARE AA+; Stable (9-Oct-17) -	1)CARE AA+; Stable (26-Dec-16) 2)CARE AA+ (14-Nov-16)	1)CARE AA+ (30-Nov-15)
2.	Debt-Subordinate Debt	LT	100.00	CARE AA+; Positive	-	1) CARE AA+; Stable (9-Oct-17)	1)CARE AA+; Stable (26-Dec-16) 2)CARE AA+ (14-Nov-16)	1)CARE AA+ (30-Nov-15)
3.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+; Positive		1) CARE AA+; Stable (9-Oct-17) 2)CARE AA+; Stable (18-Aug-17)	-	-

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