



August 23, 2018

Vistra ITCL (India) Limited  
The IL&FS Financial Centre  
Plot No. C-22, G Block, 7<sup>th</sup> Floor,  
Bandra Kurla Complex , Bandra (E)  
Mumbai – 400 051

Dear Sirs,

**Sub.: Credit Rating**

**Ref.: Tata Capital Housing Finance Limited**

Pursuant to Regulation 51 of the Securities and Exchange Board of India (“SEBI”) (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the requirements of SEBI (Issue and Listing of Debt Securities) Regulations, 2008, please be informed that the credit rating agency India Ratings and Research Private Limited (“India Ratings”) has assigned the Ratings for the instruments / facilities of Tata Capital Housing Finance Limited, as under:

Instrument	Assigned Rating
Retail Bonds	IND AAA/ Stable
Long-term bank loans	IND AAA/ Stable

A copy of the Ratings Rationale dated August 22, 2018 published by India Ratings, is attached.

Request you to take the above on record.

Thanking you,

Yours faithfully,

For **Tata Capital Housing Finance Limited**

**Jinesh Meghani**  
**Company Secretary**

Encl.: as above

**TATA CAPITAL HOUSING FINANCE LIMITED**

Corporate Identity Number U67190MH2008PLC187552

11th Floor Tower A Peninsula Business Park Ganpatrao Kadam Marg Lower Parel Mumbai 400 013

Tel 91 22 6606 9000 Web [www.tatacapital.com](http://www.tatacapital.com)

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## India-Ratings Assigns Tata Capital Housing Finance 'IND AAA'/Stable

# 22

AUG 2018

By Siddharth Goel

India Ratings and Research (Ind-Ra) has assigned Tata Capital Housing Finance Limited (TCHFL) a Long-Term Issuer Rating of 'IND AAA' with a Stable Outlook. The instrument-wise rating action is rated as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Retail bonds*	-	-	-	INR50	IND AAA/Stable	Assigned
Long-term bank loans	-	-	-	INR15	IND AAA/Stable	Assigned

\*Unutilised; combination of non-convertible debentures and subordinated bonds

Ind-Ra has taken a consolidated view of Tata Capital Limited (TCL; 'IND AAA'/Stable) and its operating subsidiaries including TCHFL (100% held by TCL) for assigning the ratings, given the financial and operational flexibilities that the consolidated platform offers.

### KEY RATING DRIVERS

**Core to Ultimate Parent; Could Play Important Role in Group's Strategy:** The ratings reflect the strong credit profile of TCL's 93% parent, Tata Sons Limited (TSL). TCL's business is core and integral to TSL's strategy and is likely to be one of the key growth and value drivers for it. TSL maintains strategic linkages, management oversight and control over, and majority shareholding in TCL, which will continue on an ongoing basis. TSL has expressed its commitment to (a) provide support to TCL group to meet the latter's healthy long-term growth plans and (b) assist TCL to meet all obligations to its lenders in the event of extreme stress scenario. The support has been demonstrated by way of a committed capital infusion of INR25 billion into TCL in FY19 (INR12.5 billion already received in July 2018), which is 38% of TCL's net worth at FYE18.

Although TCL's consolidated profitability share is modest, Ind-Ra expects financial services contribution to increase significantly in the long run. This is in line with TSL's investment strategy, aiming to generate a more diversified income profile.

**TCL's Increasing Granularity in Loan Portfolio; Focus on Group Ecosystem:** TCL's sizeable franchise has a fairly diversified portfolio across subsidiaries including Tata Capital Financial Services Limited ('IND AAA'/Stable), TCHFL and Tata Capital Cleantech Limited. There has been increased focus of the group on financial services business. TCL's senior management team has been strengthened with experienced industry professionals being brought to manage the financial services business. The company plans to increase the proportion of granular retail and semi wholesale loans (60% of consolidated loan book, mainly housing and SME business loans).

**Penetration in Tata Group to Increase:** TCL plans to expand its presence in Tata Group companies, benefiting from the synergies of group. It targets to penetrate extensively into the group's ecosystem which would include lending to vendors, customers and employees of Tata group's (employee base of over 300,000). Ind-Ra expects this would enable TCL to improve its customer longevity and reduce business generation as well as credit costs.

**High Growth Focus:** TCHFL's loans form 34% of the total consolidated loans of TCL at FYE18. This proportion is likely to increase as TCHFL is targeted by the management to grow at a faster rate than TCFSL. TCHFL has an individual home loans (HL) proportion of 70% in its loans portfolio, while loan against property (LAP) and construction funding (CF) form 20% and 10% of the loans, respectively. The affordable housing financing segment forms 25% of HLs. Ind-Ra expects an increase in the proportion of LAP and CF loans which would improve the yield profile of TCHFL.

**Improving Operational Performance:** TCHFL's pre-provisioning operating profitability as a proportion to earning assets increased to an average 2.2% during FY16-FY18 from average 1.7% in the preceding two years, led by a rising net interest margin and reducing operating costs. The net interest margin rose due to an increase in the affordable financing and LAP proportion. While the profitability lags behind the industry peers', an improvement is likely as management focuses on improving efficiencies in operational and credit processes, customer centricity, portfolio quality, and collection capability. TCHFL's gross non-performing asset ratio increased to 1.2% in FY18 (FY17: 0.9%) due to higher delinquencies in the HL segment, while those in the LAP and CF segments remained controlled. LAP loans booked in TCHFL are much granular with an average ticket size of INR270 million. TCHFL's pre-provisioning operating profitability buffer (FY18: 3.3x) is adequate to absorb its credit costs.

**Capitalisation to Improve:** TCHFL plans to improve its tangible equity to assets ratio from 8.5% at FYE18, owing to an equity infusion in FY19. Management has indicated the debt-equity ratio would remain in line with industry peers' in the long-run.

**Funding Mismatches in Short Tenor:** TCHFL has cumulative asset-liability mismatches in the short-term buckets which were high at FYE18. The refinancing risk however is mitigated with TSL's commitment to TCL and its subsidiaries to assist them in meeting their obligations to lenders in the event of extreme stress scenarios. The availability of undrawn bank lines provides additional comfort.

## RATING SENSITIVITIES

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Future developments that could, individually or collectively, lead to a negative rating action include:

- dilution of support expectations in Ind-Ra's opinion, either on account of inability to manage asset quality especially in view of the high loan growth strategy, resulting in higher-than-expected losses or diminished business prospects, materially weakened financial parameters, or decreased importance of TCHFL or TCL to TSL, or otherwise
- lack of timely support in terms of equity capital for growth or a liquidity event
- any deterioration in the credit profile of TSL

## COMPANY PROFILE

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TCHFL is a housing finance company and is wholly owned subsidiary of TCL. It houses the mortgage related lending products of TCL. The company had a balance sheet size of INR206.7 billion at end-March 2018. The company has a pan-India presence with more than 40 branches.

### FINANCIAL SUMMARY

Particulars	FY18	FY17
Total tangible assets (INR million)	203,681.6	170,207.9
Total tangible equity (INR million)	17,235.3	13,369.2
Net income (INR million)	2,142.0	1,781.7
Return on average assets (%)	1.1	1.2
Teir-I capital adequacy ratio (%)	12.1	10.2
Tangible equity/assets (%)	8.5	7.9
Source: TCHFL		

### NON-COOPERATION WITH PREVIOUS RATING AGENCY

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For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

### SOLICITATION DISCLOSURES

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Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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### ABOUT INDIA RATINGS AND RESEARCH

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**About India Ratings and Research:** India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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## Applicable Criteria

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[Financial Institutions Rating Criteria](#)  
[Non-Bank Finance Companies Criteria](#)

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