



TATA CAPITAL

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REPORT**

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Overview of Tata Capital

- Tata Capital Limited (TCL) is the financial services arm of the Tata Group. Primarily, TCL holds investments in its subsidiaries which are engaged in a wide range of services and products within the financial services sector. It is a subsidiary of Tata Sons Private Limited and is registered with the Reserve Bank of India (RBI) as a Systemically Important Non-Deposit Accepting Core Investment Company (CIC). TCL has been classified as a Middle Layer Non-Banking Financial Company (NBFC-ML) as per the RBI Scale-Based Regulations. While TCL acts as a holding company, it also engages in permitted activities under the directions issued by the RBI for CICs. Collectively, TCL and its subsidiaries are referred to as "Tata Capital."
- The company and its subsidiaries are involved in retail finance, commercial finance, investment in private equity funds, and advisory and management of private equity funds. They are regulated by various authorities such as the RBI, SEBI, National Housing Bank (NHB), Monetary Authority of Singapore (MAS), Financial Conduct Authority in the UK, Association of Mutual Funds of India (AMFI), and Insurance Regulatory and Development Authority of India (IRDA).
- In the financial year ending March 31, 2023, Tata Capital's consolidated income increased significantly, and it also recorded substantial growth in profit after tax. It manages private equity funds across domestic and overseas markets, invests in early-stage technology-based solutions, and provides financing and advisory services for projects in renewable energy, energy efficiency, waste management, water management, and infrastructure finance.
- As a one-stop financial services provider, Tata Capital caters to the diverse financial requirements of its retail, corporate and institutional customers with a comprehensive suite of products and service offerings :
 - Personal Loans
 - Other Consumer Loans
 - Private Equity
 - Commercial and SME Finance
 - Home Loans
 - Cleantech Finance
 - Loan Against Property
 - Leasing Solutions
 - Business Loans
 - Institutional Distribution
 - Wealth Products Distribution
 - Tata Cards

New Products introduced

- Tata Capital launched Micro Business Loans as a sub-variant of Business Loans in April 2022 to Traders, Service providers and Manufacturers. The entire onboarding journey is fully digitized with various integrations including NSDL PAN check, Digital KYC, Banking Analysis Automation and Digital Agreement with Aadhaar E-sign. Customers can now avail small ticket loans in a quick and paperless manner.

Snapshots of Numbers

Book Size 1,20,940 Cr	Retail + SME Book 80%
Total Comprehensive Income 2,975 Cr	Amongst Top 3 diversified NBFCs in India
Locations 439	90% locations in non - metros
Customers 3.1 million+	80% from non-metros

Key Performance

Highlights of TCL for the FY 2022-23



- Crossed Rs. 1 lakh crore book size mark, one of the select few private NBFCs to achieve the landmark till date.
- Loan book grew by 28% Y-o-Y (+8% Q-o-Q) to Rs. 1,20,940/- crore with retail + SME constituting 80% of the total loan book.
- Highest ever disbursals in FY 23, up by 42% Y-o-Y, crossed Rs. 20,000 crore quarterly disbursals mark for the 1st time.
- Highest ever profit after tax of Rs. 2,975 crore, up by 80% Y-o-Y.
- Highest ever ROE, including one-time gains is 23%. Excluding one-time gains, RoE is 17.30% up from 15.60% in FY 22.
- Credit costs stood at 0.50% in FY 23, lower by 47% on a Y-o-Y basis.
- GNPA at 1.7% (Mar 22: 1.9%) and NNPA at 0.40% (Mar 22: 0.6%).

In FY 23 TCL has embarked on simplifying the legal entity structure wherein two of the company's subsidiaries – Tata Capital Financial Services Limited ('TCFSL') and Tata Cleantech Capital Limited ('TCCL') will merge with the holding Company i.e., Tata Capital Limited to create a unified entity with a wider and stronger capital and asset base. Company has filed for necessary approvals and expects the merger to go through soon.

Following are the Subsidiaries of Tata Capital Ltd.

- Tata Capital Financial Services Limited (“TCFSL”)
- Tata Capital Housing Finance Limited (“TCHFL”)
- Tata Cleantech Capital Limited (“TCCL”)
- Tata Securities Limited (“Tata Securities”)
- Tata Capital Pte. Ltd., (“TCPL”), Singapore and its subsidiaries, viz. Tata Capital Advisors Pte. Ltd. (“TCAPL”), Singapore and Tata Capital Plc. (“TCPLC”), UK
- Tata Capital General Partners Limited Liability Partnership
- Tata Capital Healthcare General Partners Limited Liability Partnership
- Tata Opportunities General Partners Limited Liability Partnership
- Tata Capital Growth II General Partners Limited Liability Partnership
- Tata Capital Healthcare II General Partners Limited Liability Partnership

NBFC Industry

- The Indian economy was among the fastest-growing in the world before the onset of the COVID-19 pandemic. In the years leading up to the global health crisis, the country's economic indicators posted gradual improvements. The twin deficits, namely current account and fiscal deficits, narrowed, while the growth-inflation mix showed a positive and sustainable trend. Despite the geopolitical tensions worldwide, India's economy is expected to grow by 6.21 per cent in FY24, driven by robust domestic demand and strong growth in the manufacturing and services sectors. As the country progresses, demand for credit is likely to remain strong, especially among Micro, Small and Medium Enterprises (MSMEs) and retail, and is projected to grow by 13.5 to 14.0 percent.
- In terms of asset size-wise mix, housing loans and infrastructure loans continue to account for a major chunk of the overall NBFC portfolio. Microfinance loans have increased their share from approximately 2 per cent to 3 percent between FY19 and FY23. Housing and infrastructure loans are expected to maintain their share in overall NBFC credit. In addition, auto loans, personal loans, MSME loans and microfinance loans are expected to perform better as compared to other segments in FY24.

Key reasons for Growth

- **Deep demographic and addressable market understanding:** With their operations in the unorganized and underdeveloped segments of the economy, NBFCs have created a niche for themselves by understanding what customers want from them and guaranteeing last-mile delivery of goods and services.

- **Tailored product offerings:** NBFCs have adapted their product offering to meet the specific characteristics of a customer group and are focused on meeting appropriate needs by carefully analyzing this target segment and customizing pricing models.
- **Wider and effective reach:** NBFCs are now reaching out to Tier 2, Tier 3 and Tier 4 markets, distributing the loan across several customer touchpoints. In addition, they are building a connected channel experience that provides an omnichannel, seamless experience of sales and service 24 hours a day, seven days a week.
- **Technology advancements and growing fintech ecosystem for improved efficiency and enhanced experience:** The use of technology is helping NBFCs customize credit assessment.
- **Co-lending:** RBI, in November 2020, issued co-lending norms that enable banks and NBFCs to collaborate for priority sector lending (PSL).
- **Government and central bank Initiatives:** The Government of India also unveiled several initiatives aimed at addressing some of the structural issues stressing the small business lending segment. These include granting licenses to account aggregators, initiating the Pradhan Mantri Mudra Yojana (PMMY), launching UPI platforms, unveiling platforms such as TReDS, GeM and Open Network for Digital Commerce (ONDC) and implementing GST.

Financials of Tata Capital

Particulars	For the 9 months ended 31/12/2023	For the period ended 31/03/2023	For the period ended 31/03/2022
Interest Income	8,294.17	11,895.90	9,089.75
Finance Cost	4797.84	6600.78	4889.03
Net Interest margin	3496.33	5295.12	4200.72
Profit after Tax	1715.53	2,945.77	1,800.81
GNPA	1.69	1.71	1.90
NNPA	0.39	0.40	0.60
ROE	----	7.1%	1.2%
ROA	----	5.6%	0.80%

(Fig in Cr.)

Valuation Ratio

Particulars	
CMP	1,025
EPS (9 months EPS converted to annualized EPS)	61.87
P/E Ratio	16.56

Cash Flow Statement

Particulars	FY 2022-23	FY 2021-22
CFOA	(23,189.71)	(14,386.84)
CFIA	(2,269.46)	(2,617.10)
CFFA	26,429.57	17,055

Comparison with peers

Company Name	Market Cap	P/E Ratio	P/B Ratio	ROE	ROA
Tata Capital Ltd.	3,59,467.50	16.56	23.26	7.10%	5.60%
Aditya Birla Capital	53,194 Cr.	19.80	2.53	26.80%	3%
JIO Financials	2,30,561 Cr.	9,171	1.74	----	----
Bajaj Finance	4,33,393 Cr.	31.50	5.51	23.50%	4.72%
L & T Finance	40,396 Cr.	18.50	1.79	6.41%	1.25%

Valuation Metrics: A Concerning Picture

- A critical aspect of investment analysis is valuation. Currently, Tata Capital trades at a Price-to-Book (P/B) ratio of 23x, which is exceptionally high when compared to its peers in the financial sector. For context, globally renowned financial institutions and NBFCs (Non-Banking Financial Companies) typically trade at P/B ratios of 2.5-5. Even Bajaj Finance, a heavyweight in the NBFC space, trades at a P/B of 7.60 as of April 24, 2024.
- Such a high P/B ratio for Tata Capital suggests an overly optimistic market sentiment that may not be fully justified by its financial fundamentals. This is particularly pertinent considering the recent rights issue priced at ₹188, which, even when viewed at a discount, suggests a fair value significantly lower than its current market price. The fair value could be around INR 350-400 level.



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