

India Ratings Assigns Tata Digital's CP 'IND A1+'

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By Abhishek Nigam

India Ratings and Research (Ind-Ra) has rated Tata Digital Limited (TDL) commercial paper (CP) as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating	Rating Action
CP	-	-	365 days	INR50	IND A1+	Assigned

Analytical Approach: To assign the rating, Ind-Ra has factored in the ownership of TDL by its 100% parent, TataSons Private Limited (TSL; 'IND AAA'/Stable), given the strong operational and strategic linkages between them.

KEY RATING DRIVERS

Strong Strategic Linkage with TSL: The rating factors in the strengths of TDL's operational and strategic linkages with TSL. Ind-Ra also derives comfort from TSL's articulation of the intent to maintain the majority shareholding in TDL and to assist the latter in performing its obligations and discharging its liabilities to all lenders and debt holders in a full and timely manner. Also, building a digital platform under TDL and /or the development phase will require sizeable investments, which highlights the former's strategic importance to the parent. TDL also shares the Tata brand name.

The platform being developed under TDL will create a digital overlay for Tata Group's consumer business for driving revenue growth. TDL benefits from having access to a sizeable customer base and an array of Tata brands across a diverse product set which it can potentially onboard onto its platform. Both these factors are key to the platform's customer acquisition strategy and to build size and scale.

TDL is proposing investments in two vertical segments, including groceries. The online grocery segment remains one of the fastest growing categories in the e-commerce space.

Strong Operational Linkages: The three-member board of TDL is wholly comprised of representatives from TSL. Also, TDL's management team has been drawn from Tata Consultancy Services, a Tata Group company with the necessary technical expertise in the information technology and digital space. Ind-Ra expects TSL to monitor TDL's operations and financial position. Ind-Ra views TDL as operationally integral to the Tata Group as it intends to provide a complete overlay on entire Tata Group's digital aspirations.

Legal Linkages Weak, Albeit Underpinned by Large Shareholding: TSL has not provided any explicit support to TDL in terms of corporate guarantees and/or cross-default clauses with regard to the latter's debt. TSL holds 100% of share capital of TDL.

Liquidity Indicator – Adequate, backed by Strong Parentage: TDL's liquidity is supported by the inherent financial flexibility it has by being part of the Tata Group and wholly owned by TSL. TSL has a considerable financial flexibility because of the 1) substantial market value of its investments 2) cash flow from investee companies. In addition, TSL has a strong access to capital markets and can raise funds at competitive rates.

Timely Launch & Traction in User-Base for Platform - Key Monitorable: Given the importance of TDL in Tata Group's overall digital aspirations, Ind-Ra expects TDL to not only launch the platform in a timely fashion, but also bring onboard most of the Tata Group's flagship consumer brands. Also, the initial funding requirement could be higher towards the platform development expenses and funding operational expenses. Ind-Ra expects TSL to infuse sufficient equity upfront or in a timely fashion so as to keep leverage level at TDL under check. In the long-term, Ind-Ra expects TDL to garner a meaningful user-base with adequate revenue generation potential, which would maintain TDL's strategic importance to TSL.

Competitive, Technological and Regulatory Risk: The digital landscape in India has remained extremely competitive and dynamic, marked by the entry of several new players, ongoing price wars and continued losses reported by several sizeable market participants. Ind-Ra shall continue to monitor the platform's operational and financial progress, as well as regulatory and technological landscape in the Indian digital space.

Standalone Financials: TDL's standalone financials are not material as it does not have any meaningful operations so far. It reported revenue of INR127 million in FY21 as against INR53 million in FY20. Issued and subscribed shares stood at INR6,000 million on 31 March 2021. Its EBITDA loss in FY21 stood at INR3,061 million as against INR571 million in FY20.

RATING SENSITIVITIES

Negative: Developments that could, individually or collectively, lead to a negative rating action include:

- a weakening of TDL's linkages with TSL or a weakening of TSL's credit profile
- any delay or insufficient front-ended equity infusion to finance acquisitions or investment needs, leading to high leverage at TDL
- inordinate delays in the launch of the platform or the absence of key consumer brands of Tata Group on the platform in the medium term
- In the long-term, slower onboarding of users and/or revenue generation through the platform that may weaken TDL's strategic linkages with TSL

COMPANY PROFILE

TDL was set up in Mar 2019 as a wholly owned subsidiary of TSL with an objective of providing a digital platform Tata

FINANCIAL SUMMARY

Particulars	FY21	FY20
Revenue (INR million)	127	53
EBITDA (INR million)	-3,061	-571
Net leverage (x)	n.m.	n.m.
Interest coverage (x)	n.m.	n.m.
Source: TDL, Ind-Ra		

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
CP	Low

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

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Applicable Criteria

[Corporate Rating Methodology](#)

[Parent and Subsidiary Rating Linkage](#)

[Short-Term Ratings Criteria for Non-Financial Corporates](#)

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