



Ratan Tata Endowment Fund Buys into 2 Tata Cos

By Kala Vijayaraghavan & Maulik Vyas, ET Bureau Last Updated: Oct 17, 2023, 04:02 AM IST

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Synopsis

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officials aware of the development said. Tata Digital has been valued upwards of \$15 billion (₹1.24 lakh crore) by analysts, based on the gross merchandise value of key categories on its superapp Tata Neu.

It also, of late, bought a little less than 1% for ₹147 crore from Tata Motors in Tata Technologies, which will be listed soon. The investment in Tata Technologies was funded by way of a loan from Tata Capital. The Ratan Tata Endowment Foundation and Ratan Tata Endowment Trust were set up last year.

The recent couple of investments mark the first steps in building up the corpus of these vehicles. Dividends from these holdings, or sale of shares, would generate funds for philanthropic purposes. Currently, dividend income from group operating companies is the main source of funds for Tata Trusts.

However, this may prove insufficient as the Trusts' philanthropic activities grow, according to a person familiar with the matter. "The philanthropic plans of Tata Trusts are getting bigger in the areas of health, education, sanitation, rural development, etc," said an official close to the development. "It makes immense sense to build institutions that can be on a par with global entities that fund large charities.

It (the foundation) has also been created with an aim of estate planning, with the proceeds from the corpus being harnessed to fund future charities.” Tata Sons did not comment. An email sent to Ratan Tata also did not elicit any reply. It is not yet clear if the foundation would also pick up stakes in companies outside of the Tata group. By the law, there are no restrictions on this.

“The Ratan Tata Endowment Foundation is a section 8 notfor-profit company, which has its own benefits over a charitable trust,” said Sakate Khai tan, senior partner at Khaitan Legal Associates. “It can focus on multiple charitable objectives while having the benefits of perpetuity (as well as the) higher governance thresholds that the Tata group prides itself on, and can hold investments directly in for-profit companies.” “Whether or not they choose to invest outside the Tata group will depend on its charter documents,” he said.

The advantage of setting up an endowment fund, apart from wealth management and succession planning, is to secure tax efficiencies by registering the corpus and availing exemptions under the Income Tax Act. In simple words, an endowment is an investment ‘vehicle’ that holds an underlying investment fund, contributed by the donor for charitable purposes.

“An endowment trust’s primary purpose is to undertake investments.

Proceeds of these investments may be deployed towards charitable objectives,” said Snigdhaneeel Satpathy, partner at law firm Saraf and Partners. “A charitable trust, on the other hand, would typically function like an implementation organisation that undertakes charitable purposes by itself. Funds received by a charitable trust are primarily deployed directly towards charitable purposes.” He said the Ratan Tata Endowment Foundation would be governed by its trust deed, as is typical.



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