

Tata Technologies Limited

January 03, 2023

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	765.00	CARE AA+; Stable / CARE A1+ (Double A Plus ; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	765.00 (₹ Seven Hundred Sixty-Five Crore Only)		

**Details of facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Tata Technologies Limited (TTL) considers its strong brand recall along with sustained strong market position in Engineering, Research and Development (ER&D) segment and diversified presence across three geographies thus enabling global reach. The ratings also take into account diversified revenue sources from three different industrial segments, viz., automotive, aerospace and industrial machinery, coupled with established relationship with marquee clients in each segment. Though TTL has presence across all the three industrial segments and has forayed into educational sector through one of its large projects, it continues to derive major chunk of revenue from the automobile segment and the same is expected to remain a predominant sector in terms of revenue contribution going ahead. The ratings further derive strength from the robust financial risk profile and healthy liquidity characterised by absence of long-term debt which is expected to be maintained.

The above rating strengths are offset by its concentration of revenue to captive customers, viz., Tata Motors Limited (TML, rated 'CARE AA-; Stable/ CARE A1+') and Jaguar Land Rover (JLR). These captive customers contributed 40% of the consolidated total operating income (TOI) of TTL in FY22 (refers to the period April 1 to March 31) and 33% in H1FY23. However, CARE Ratings Ltd notes the declining revenue share of captive customers over the period of years. Going ahead, CARE Ratings Ltd expects the revenue growth to be driven largely by non-captive customers and state government orders supported by improved demand environment for the automotive segment, particularly for electric vehicles (EVs) across geographies. The ratings are further constrained by susceptibility to slow down in the end-user industries and margin exposure to competition, technological obsolescence, protectionism, and foreign exchange fluctuation risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Scale up operations while improving its profitability margins in the range of 22%- 25% on a sustained basis going forward.
- ✓ Reducing customer concentration risk largely from its captive customers

Negative Factors- Factors that could lead to negative rating action/downgrade:

- × Any weakening or moderation in the new order wins in the backdrop of prolonged slowdown in the industry resulting in lower than anticipated revenue visibility and delay in execution.
- × Any incremental sizable debt-funded acquisition/capex that can moderate the capital structure leading to greater than 0.50 times gearing level

Detailed description of the key rating drivers

Key Rating Strengths

Strong brand recall with sustained strong market position in ER&D services

TTL derives strong brand recall owing to its brand image as well as its long-established position in the ER&D division since the last three decades. TTL derived around 40% of its service revenue from its two captive customers in FY22 and 33% in H1FY23. All the orders from one of its captive customers are bid-based and TTL does not get any preferential treatment in the bidding process. Being a subsidiary of TML, which is one of the flagship companies of the Tata group, TTL continues to benefit from its top management who have over two decades of expertise in their respective areas and lend in their global business perspective. Further, TTL is envisaging an initial public offer wherein TML would dilute its shareholding. However, it is expected that TML would not reduce its shareholding in TTL below 50%.

TTL has a balanced onshore/offshore global delivery model with 18 global delivery centers in USA, Europe, India, China, and South-east Asia to provide aligned onshore customer proximity required to support the iterative nature of product

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

development services together with the capacity and cost-effectiveness of offshore locations. Further, the company is having many orders from the state governments like Government of Karnataka, Government of Bihar, Government of Assam, Government of Tamil Nadu, etc. for transforming government Industrial Training Institutes (ITIs) into technology centers with modern infrastructure and training facilities to meet the industry 4.0 standard.

Diversified revenue sources along with established relationship with marquee clientele

TTL derives majority of its revenue from automotive sector. Though there is diversification, TTL's revenue from services remains inclined towards the automotive industry and two of its captive customers still contribute 40% of the topline in FY22. The contribution of related parties in the revenue of TTL has been reducing and TTL has achieved new customers over the years. Key areas where TTL has been focusing include diversification into non-automotive sectors such as aerospace and industrial heavy machinery and foray into the educational space. The company is able to achieve multiple state government orders. The company shall focus on battery/electric vehicle market which shall increase demand for lightweight vehicle architectures, connected services and autonomous driving systems. The company drives majority of its revenue from the service segment (more than 75%).

Robust financial risk profile with stable earnings, debt-free status and strong cash reserves

TTL's financial profile is robust with total revenues of Rs. 3575.07 crore in FY22 and Rs. 1,887.90 crore in H1FY23 and healthy PBILDT margin of 19.33% in FY22 and 20.92% in H1FY23. The financial profile is also supported by TTL's sizeable net worth of Rs.1,514.63 crore as on March 31, 2022, strong cashflows, and debt-free status (excluding lease liabilities). The company's liquidity position is strong with a cash and cash equivalents of Rs.768.26 crore as on March 31, 2022 and Rs. 713.26 crore as on September 30, 2022. TTL's debt indicators are expected to remain comfortable, going forward, in the absence of any large debt-funded capital expenditure.

Key Rating Weakness

Susceptibility to competition, technological obsolescence, protectionism and foreign exchange fluctuation risk

The company serves customers largely in the engineering design and technology domain that are undergoing rapid changes and innovation. For auto OEMs, adaption to the customers' changing needs and expectations viz. switch to electrification, connected and autonomous driving systems etc. is highly expected. Adaptability to these changes needs to be dynamic or else OEMs shift to other competitors. This may be a potential threat due to workforce skill obsolescence as well. However, TTL has been investing in R&D activities, reskilling and up-skilling of workforce which shall help TTL in updating its designs and manufacturing variety of products for the customers. Furthermore, increasing protectionist measures imposed by few economies, changes in immigration laws or any local regulations which increases the H-1B visa denials can impact the workforce mobilization, profitability and growth of the company. Further, due to high export revenue, TTL faces challenges due to adverse currency movements. As on date, TTL does not follow any hedging policy which exposes it to adverse currency movements. Another significant challenge faced by the companies like TTL is the high attrition rates of employees. The skill set of available resources plays avital role in project execution and implementation. TTL's attrition rate for FY22 was 25.1% and for H1FY23 is 18%.

High percentage of revenue from group companies

Around 33% of the TTL's TOI for H1FY23 comes from its top two captive customers- TML and JLR, which poses significant revenue concentration risk for the company. However, TTL has been reducing its reliance on captive customers from 70% of the revenue in FY15 to 40% in FY22. The company has been actively focusing on acquiring non-captive customers as well as various state government orders by taking necessary steps. This shall help TTL diversify its clientele base and also acquire newer geographies.

Liquidity: Strong

Liquidity remains Strong marked by cash and cash equivalents at Rs. 713 crore as on September 30, 2022, against nil long term debt. TTL has Rs.200 crore of fund-based limits which is nil utilized for the past twelve months, thus providing additional liquid avenues. TTL management has conserved cash in FY22 which was then utilized towards buyback of shares or strategic acquisition to enhance its service capabilities. The current ratio stands at 1.76x during FY22 and lean operating cycle negates any requirement of working capital in the projected period.

Analytical approach: Consolidated approach owing to considerable financial, operational and management linkages between Tata Technologies Limited and its subsidiaries. The list of subsidiaries considered in the consolidated financial statements as on September 30, 2022, and March 31, 2022 is given below:

Particulars	Country	September 30, 2022	March 31, 2022
Direct Subsidiaries			
TATA Technologies Pte. Ltd.	Singapore	100.00	100.00
Indirect Subsidiaries			
Tata Technologies (Thailand) Limited	Thailand	100.00	100.00
Tata Manufacturing Technologies Consulting (Shanghai) Limited	China	100.00	100.00
INCAT International Plc.	UK	100.00	100.00
Tata Technologies Europe Limited	UK	100.00	100.00
Tata Technologies Nordics AB ^ (Formerly known as Escenda Engineering AB up to November 01, 2020)	Sweden	100.00	100.00
Tata Technologies GmbH ^ (Formerly known as INCAT GmbH up to March 30, 2022)	Germany	100.00	100.00
Tata Technologies Inc.	USA	99.80	99.80
Tata Technologies de Mexico, S.A. de C.V ** (in process of liquidation)	Mexico	99.80	99.80
Cambric Limited, Bahama **	Bahama, USA	99.80	99.80
Cambric GmbH (liquidated on September 17, 2020) **	Germany	99.80	99.80
Tata Technologies SRL, Romania **	Romania	99.80	99.80
Tata Technologies Limited Employees Stock Option Trust	India	100.00	100.00
INCAT International Limited ESOP 2000	UK	100.00	100.00

** For these subsidiaries though the holding is 99.81 % and 99.76 %, the indirect voting power is 100%.

Applicable Criteria

- CARE's Criteria on Rating Outlook and Credit Watch
- CARE's Policy on Default Recognition
- Criteria for Short Term Instruments
- Financial ratios – Non-Financial Sector
- Liquidity Analysis of Non-Financial Sector Entities
- Rating Methodology - Service Sector Companies
- Rating Methodology: Consolidation
- Rating Methodology: Factoring linkages parent sub-JV group

About the Company

Incorporated on August 22, 1994, and headquartered in Pune, Tata Technologies Limited (TTL), is a subsidiary of Tata Motors Limited (TML, rated CARE AA-; Stable/ CARE A1+, reaffirmed on August 17, 2022). TTL is a global engineering and product development services company. TTL, initially, was a dedicated department of TML which used to handle ER&D services exclusively for the former. Later, with the management decision to realign the TML's focus solely on automotive manufacturing, the division was carved out and TTL came into existence. Over the years, the company has moved up the value chain and presently offers its services through the Engineering, Research & Development (ER&D) services and Digital Enterprise Solutions (DES) verticals. Range of services includes IT Consultancy, SAP implementation and maintenance, providing networking solutions, computer-aided design & computer-aided manufacturing (CAD/CAM) & design consultancy primarily to manufacturers and their suppliers in the international and domestic automotive, aerospace, and industrial machinery engineering segment. The company serves to more than 100 global clients through its six offices located at Mumbai, Lucknow, Jamshedpur, Bangalore, Chennai and one branch office located in Japan along with 18 Global Delivery Centres (GDCs) in USA, Europe, India, China and South East Asia.

Brief financials of TTL (Consolidated):

Brief Financials (Rs. crore)	31-03-2021(A)	31-03-2022 (A)	H1FY23(A)
Total operating income	2413.11	3575.07	1887.90
PBILDT	417.91	691.14	395.02
PAT	239.18	436.97	259.09
Overall gearing (times)	0.19	0.17	0.14
Interest coverage (times)	23.66	31.56	48.83

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated bank facilities: Detailed explanation of covenants of the rated instruments/ bank facilities is given in Annexure-3

Complexity level of various bank facilities rated for this company: Annexure 4

Annexure-1: Details of Bank Facilities

Name of the Bank facilities	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	765.00	CARE AA+; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	765.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (03-Mar-22) 2)CARE AA+; Stable / CARE A1+ (07-Dec-21)	1)CARE AA+; Stable / CARE A1+ (08-Jan-21)	1)CARE AA+; Stable / CARE A1+ (30-Jan-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated bank facilities: NA

Annexure 4: Complexity level of various bank facilities rated for this company

Sr. No.	Name of facilities	Complexity Level
1	Fund-based - LT/ ST-CC/Packing Credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated bank facilities: CARE Ratings Ltd. has classified bank facilities rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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