TATA TECHNOLOGIES LIMITED

March 03, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	765.00 (Enhanced from 250.00)	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	**765.00 (Rs. Seven Hundred Sixty-Five Crore Only)**		

Details of instruments/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 FY21 (refers to the period April 1 to March 31). 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 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.
- Reduce 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 with diversified presence across three geographies thus enabling global reach.

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. Though TTL derived around 40% of its service revenue from its two captive customers during FY21, 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. TTL has a balanced onshore/offshore global delivery model with 17 global delivery centres in USA, Europe, India, China, and South-east Asia to provide aligned onshore customer proximity required to support the iterative nature of product development services together with the capacity and cost-effectiveness of offshore locations. Furthermore, TTL revenue sources remain geographically diversified with three of its active regions, including Asia Pacific, UK and Europe, and North America contributing 37%, 31% and 32% respectively of the revenue in FY21.

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

Diversified revenue sources coupled with established relationship with marquee clients
TTL derives around 84%-85% of its revenue from the automotive sector, 5%-6% from aerospace and remaining from industrial machinery segment. The company enjoys an established client base in each segment and has been focusing on replacing its captive customers by acquiring non-captive customers. Though there is revenue diversification, TTL's revenue remains inclined towards the automotive industry, which is expected to continue going ahead. TTL has been trying to address this through rebalancing its engineering service portfolio between mechanical and software/embedded electronics/digital services with more focus on further diversification into non-automotive sectors such as aerospace and industrial heavy machinery and foray into educational space. In addition to the above, focus is expected to remain on battery/electric vehicle market, which is driving the demand for lightweight vehicle architectures, connected services and autonomous driving systems.

Robust financial risk profile with stable earnings, debt-free status and strong cash reserves
TTL's financial profile is robust with revenues of Rs.2,407.86 crore and healthy PBILDT margins of 17.09% in FY21. The financial profile is also supported by TTL's sizeable net worth of Rs.1,372.24 crore as on March 31, 2021, strong cashflows, and debt-free status (excluding lease liabilities). The company's liquidity position is strong with a cash and investments of Rs.1,392 crore as on September 30, 2021. TTL's debt indicators are expected to remain comfortable, going forward, in the absence of any large debt-funded capital expenditure.

Key Rating Weakness
Revenue concentration risk and susceptibility to slow down in end-user industries
Around 40% of the TTL's TOI 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 FY21. The company has been actively focusing on acquiring non-captive customers aided by taking necessary steps to diversify its clientele base by acquiring newer geographies. Since the company derives major revenue from the automotive segment, the slowdown in the auto segment or decrease in technology spending by its top clients can have a significant bearing on its growth.

Prone 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 and has become the major disruptor as well as the growth driver. Especially, for auto original equipment manufacturers (OEMs), companies like TTL must continuously adapt to the customers' changing needs, viz., switch to electrification, connected and autonomous driving systems, etc., which needs to be dynamic or else OEMs may opt to shift to other competitors. This may be a potential threat due to workforce skill obsolescence as well. However, TTL has been investing in various R&D activities, reskilling and up-skilling of workforce, which is expected to help the company partner with customers in designing and manufacturing products and offering opportunities to grow. Furthermore, increasing protectionist measures imposed by few economies, changes in the immigration laws or any local regulations, which increase the H-1B visa denials, can impact the workforce mobilisation, profitability and growth of the company.
In addition, with majority of the revenue coming from exports (around 66%), TTL faces headwinds on account of adverse currency movements in some of the major currencies (USD, GBP and EURO against INR) in which it bills its clients. 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 a vital role in project execution and implementation. High attrition may lead to a situation of high resource cost for TTL, which the company is managing by increase in its offshore billing pricing.

Liquidity: Strong
Liquidity of the company remains strong marked by cash balance of Rs.620 crore as on September 30, 2021, against nil long-term debt. TTL has Rs.200 crore of fund-based limits, which is nil, utilised for the past 12 months ending October 2021, thus providing additional liquid avenues. TTL's management has intended to conserve the cash which may be utilised towards buyback of shares or strategic acquisition to enhance its service capabilities. The current ratio stands at 2.01x during FY21 and lean operating cycle negates any requirement of working capital in the projected period. During FY21 and H1FY21, TTL has extended interest-bearing inter corporate deposits (ICDs) aggregating Rs.670 crore to TML which can also be considered as a source of liquidity as ICDs are repayable on demand.

Analytical Approach:
Consolidated approach owing to considerable financial, operational and management linkages between the parent and the subsidiaries. The list of subsidiaries is provided herewith:

Sr. No.	Name of the Entity	Country	% of holding as on March 31, 2021
	Direct Subsidiary		
1.	TATA Technologies Pte Ltd.	Singapore	100.00
	Indirect Subsidiaries		
1	INCAT International Plc.	UK	100.00
2	Tata Technologies Inc.	USA	99.80
3	Tata Technologies de Mexico, S.A. de C.V.(in process of liquidation)	Mexico	99.80
4	Cambric Limited, Bahamas	Bahamas	99.80
5	INCAT GmbH (in process of liquidation)	Germany	99.80
6	Tata Technologies SRL, Romania	Romania	99.80
7	Tata Manufacturing Technologies Consulting (Shanghai) Limited	China	100.00
8	Tata Technologies Europe Limited	UK	100.00
10	Cambric GmbH (liquidated on September 17, 2020)	Germany	99.80
11	Tata Technologies (Thailand) Limited	Thailand	100.00
12	Tata Technologies Nordics AB	Sweden	100.00
13	Tata Technologies Limited Employees Stock Option Trust	India	100.00
14	INCAT International Limited ESOP 2000	UK	100.00

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 in August 1994 and headquartered in Pune, Tata Technologies Limited (TTL), a subsidiary of Tata Motors Limited *(TML, rated 'CARE AA-; Stable/ CARE A1+', reaffirmed on August 19, 2021),* is a global engineering and product development services company with focus on service verticals, such as Product Lifecycle Management (PLM) and Connected Enterprise IT (CEIT) services. These services are offered primarily to manufacturers and their suppliers in the international automotive, aerospace and engineering markets. The range of services include IT Consultancy, Computer Aided Design/Computer Aided Manufacturing (CAD/CAM) engineering & design consultancy, SAP implementation & maintenance and providing networking solutions. TTL has presence in more than 25 countries through its 17 global delivery centres (GDC).

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22(UA)
Total operating income	2886.43	2407.86	2647.67
PBILDT	504.82	411.61	526.10
PAT	251.55	239.18	330.73
Overall gearing (times)	0.20	0.19	-
Interest coverage (times)	32.30	23.31	30.77

A: Audited; UA: Un-audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Detailed explanation of covenants of the rated instrument / facilities: Annexure-3
Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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 Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	765.00	CARE AA+; Stable / CARE A1+	1)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)	1)CARE AA+; Stable / CARE A1+ (08-Oct-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	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 instrument: CARE Ratings Ltd. has classified instruments 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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