Tata Technologies Limited

January 08, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term/Short term Bank Facilities	250.00	**CARE AA+; Stable/ CARE A1+ (Double A Plus ; Outlook: Stable/ A One Plus)**	**Reaffirmed**
Total Facilities	**250.00 (Rs. Two Hundred and Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of long term and short term ratings to the bank facilities of Tata Technologies Limited (TTL) continues to derive strength from its strong promoter group (Tata Group), professional and experienced management, diversified geographical presence, reputed clientele and strong business profile, marked by superior execution and delivery capabilities in engineering, design and product development services industry primarily in the automotive segment.

The ratings also derive strength from TTL's healthy financial risk profile characterized by comfortable profitability margins in FY20 (refers to the period April 01 to March 31), solvency position as on March 31, 2020, despite sizeable dividend payout and buyback program during FY20 aided by net debt-free status and robust liquidity position.

The rating strengths, however, are constrained by revenue and customer concentration risk, susceptibility to slowdown in end user especially in the automotive sector, inherent risk associated with technological obsolescence & protectionism and foreign exchange fluctuation risk.

<u>Rating Sensitivities</u>

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

- Ability of the company to substantially 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/cap-ex 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 parentage and experienced promoters and management

The company is a part of the Tata group which is one of India's oldest and largest business groups with more than 100 operating companies in several business sectors namely communications and information technology, steel, auto, engineering, materials, services, energy, consumer products, hospitality and chemicals. The group has operations in more than 100 countries across six continents, and its companies export products and services to more than 150 countries. TTL is a subsidiary of Tata Motors Limited (TML; rated CARE AA-; Negative/CARE A1+ as of August 12, 2020), one of the flagship companies of the Tata Group. TML is one of the leading automotive manufacturers in India. TTL continues to derive strength from its strong board of directors who bring in global business perspective and provide the necessary guidance to the management. The top management at TTL has over 20 years of experience in their respective areas of expertise and work across different locations.

Wide geographical diversification enables global reach

TTL has strong delivery capabilities with established global delivery centers (GDCs) spread across Europe, Asia Pacific and North America. TTL continues to bank upon its offshore engagement model enabling it to deliver in any time zone which helps it to grow in the global market. TTL has 17 GDCs spread across 25 countries in 4 continents. Further, during the past four years, TTL entered into newer geographies such as China and Sweden, in order to tap emerging opportunities and

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

acquire new clients. TTL continues to derive substantial revenues from UK and European markets (approximately 37% of TOI for the past three years ended FY20) followed by Asia Pacific (including India) (~36%) and remaining from North America.

Global player in the engineering, design and product development services coupled with association with reputed clientele
The company continues to have strong presence in the areas of engineering design services for automotive and aerospace sectors with special focus on full vehicle development programme. The automotive sector as a whole contributed around 80% of engineering services revenue in the past three years ended FY20. The company continues to have established relationships with marquee clients in the automotive (excluding captive customers-TML and Jaguar Land Rover (JLR)) and aerospace sector which results in acquiring repeated orders. Moreover, acquisitions are an essential component in TTL's continued growth strategy in Europe and other regions which significantly enhances the company's scale and service offerings in Engineering and design space. With its expertise in niche product offerings, TTL is set to foray into educational space in India in next fiscal, further diversifying its business risk profile.

Total operating income and operating profit remained flat although net profit margins declined marginally in FY20 and H1FY21
TTL registered a total operating income (TOI) of Rs.2886.43 crore in FY20 vis-à-vis Rs.2975.74 crore in FY19. The decline in TOI is largely on account of overall slowdown in auto industry in general and China in particular. PBILDT margin was seen at 17.49% in FY20 as against 18.03% in FY19. The marginal decline in PBILDT margin is on account of increase in employee cost during FY20 which was seen at 49% of TOI as against 47% of TOI in FY19. The increase in the employee cost can be attributed to the increase in average manpower strength and annual salary increment which was partially offset by improved manpower mix towards low cost resources. TTL aims to reduce its reliance on contract associates in high cost countries, as a measure of cost optimization and as a consequence, outsourcing and consultancy charges reduced by nearly 18% to Rs.304.57 crore in FY20 from Rs.370.67 crore in FY19. Interest costs and depreciation increased in FY20 on account of lease liability recognized on adoption of Ind AS 116. Subsequently, TTL registered a PAT of Rs.251.55 crore in FY20 as against Rs.352.60 crore in FY19. Thereby, PAT margin declined to 8.71% in FY20 as against 11.85% in FY19.
TTL largely caters to the requirements of three sectors: Automotive, Aerospace and Industrial Heavy Machinery. Automotive industry, which was already reeling under pressure due to the overall slowdown in the industry, had to face multiple headwinds due to the covid-19 pandemic in form of reduced demand and disruption to global supply chain. Amidst, the uncertainty, several Original Equipment manufacturers (OEMs) had to reprioritize their investment decisions and had to deploy major cost cutting programs including the R&D or discretionary spends. Aerospace sector was also materially impacted with the covid-19 pandemic and recovery time is likely to remain prolonged. The Industrial heavy machinery sector also witnessed slowdown as the pandemic had taken its toll due to the Covid-19 induced lockdown.
Despite the overall disruption caused by the pandemic, TTL registered a total revenue of Rs1099.03 crore in H1FY21 (Audited, refers to the period April 01 to September 30) as against Rs.1421.35 crore in H1FY20 (A). PBILDT margin was seen at around 14% in H1FY21 as against 15% in H1FY20, on account of various cost optimization measures taken during the period such as optimization of travel and non-essential expenses, contractor reduction etc. in addition to the various incentives/schemes availed which were provided by the various government authorities across the globe including furlough scheme in UK and job support scheme in Singapore to ensure retention of resources and saving in costs. Subsequently, company reported a PAT of Rs.70.88 crore in H1FY21 as against Rs.94.71 crore in H1FY20. Revival in the end user sectors especially automotive and aerospace and thereby improvement in the financial risk profile would remain key rating monitorable.

Robust capital structure and debt protection metrics
Despite sizeable buyback and dividend distribution, capital structure remained comfortable on account of healthy accretion of profits to reserves. Overall gearing stood at 0.20x (which includes lease liabilities) as on March 31, 2020 as against zero (nil) as on March 31, 2019 aided by nil bank borrowings as on March 31, 2020. Debt protection metrics continued to remain comfortable with Total debt to GCA of 0.74x as at March 31, 2020 as against 'nil' as at March 31, 2019 and interest coverage at 32.30x for FY20 as against 415.81x for FY19. Going ahead, any incremental sizable debt-funded acquisition which is expected to moderate capital structure and debt coverage indicators from current levels would remain a key rating sensitivity.

Key Rating Weaknesses

Revenue concentration risk coupled with susceptibility to slowdown in end user sectors
Around 50% of the Company's total service revenue comes from its top two captive customers- TML and JLR. Furthermore, service revenue from top 5 and top 10 customers contributed nearly 56% and 65% of revenue in FY20 (PY: 58% and 66% respectively). Hence, it poses a significant revenue concentration risk for the company if it loses on one of the big-ticket customers. To counter this, the company has been actively focusing on cross-selling and acquiring non-captive customers aided by taking necessary steps to diversify its clientele base by acquiring newer geographies like Vietnam, Nordics etc. over

and above the low cost nations backed by active sales and delivery teams. Consequently, TTL reduced its dependence on captive customers –TML and JLR from 70% of revenue in FY15 to 52% in FY20.
TTL derives around 80% of its revenue from automotive sector, and remaining from aerospace and other industrial heavy machinery sectors which make company's fortunes susceptible to the cyclicality associated with these sectors. In order to address this, TTL continues to focus on rebalancing its engineering service portfolio between mechanical and software/embedded electronics/digital services in the backdrop of technological shift owing to the increasing demand for electrification, shared mobility, and autonomous driving.

Prone to technological obsolescence, protectionism and foreign exchange fluctuation risk
Inability to adapt dynamically to customers' changing needs and expectations such as- move to electrification, connected and autonomous driving systems etc. would result in OEMs to shift to other capable competitors and even result in loss of business from existing customers. Such kind of potential threat might be due to workforce skill obsolescence as well. However, TTL has been investing in various R&D activities, reskilling and up-skilling of workforce to stay ahead of this change and partnering with customers in designing and manufacturing products and offering opportunities to grow. Furthermore, increasing protectionist measures imposed by few economies, changes in immigration laws or any local regulations which increase the visa denials can have a bearing on the workforce mobilization, profitability and growth of the company. Further, with majority of revenue coming from exports, TTL faces headwinds on account of adverse currency movements in some of the major currencies. However, the company follows a stated hedging policy which mitigates the risk to a certain extent.

Liquidity: *Strong*
Liquidity of TTL is marked by expected healthy cash accruals of Rs.300 crore to Rs.400 crore (FY20: Rs.347.05 crore) against zero debt repayments for FY21. Further, despite sizeable dividend payout and buyback of shares (amounting to Rs.288 crore during FY20), free cash & cash equivalents (including liquid investments) was seen at Rs.478.22 crore as on September 30, 2020 against Rs.386.76 crore as on March 31, 2020. With negligible gearing levels as on March 31, 2020, TTL has sufficient gearing headroom, to raise additional debt for its capital expenditure programs if any or any major debt funded acquisition. In addition, unutilized bank lines of around Rs.450 crore provide additional liquidity cushion. Current ratio of the company stood at 2.97x as on March 31, 2020 as against 2.74x as on March 31, 2019.

Industry
The Indian IT-BPM industry size grew 7.7% to USD 191 bn in FY20 (estimated by NASSCOM). Major proportion (51%) of the industry's revenues were generated from IT services, followed by Business Process Management (20%), engineering R&D (16%), hardware (8%) and products (5%). The ongoing covid-19 pandemic has acted as one of the biggest catalysts for digital transformation in most firms across the globe. After a softness in the initial part of Q1FY21, recovery was quick. As the quarter progressed, deal wins grew, operating margins expanded, employee attrition fell, utilization levels rose and cash flows rose for the Indian IT services industry. Henceforth, technology will play a pivotal role in helping enterprises to adapt to the new normal. Companies are expected to invest more towards building operational resilience, analytics, automation, cloud and cyber security, etc. As the deal momentum picks up in latter half of FY21, hiring shall gain pace with revenue and margin growth expected to be strong, however, rolling out salary hikes and promotions along with higher overhead and travel costs could act as a headwind for H2-FY21 margins.

Analytical approach: Consolidated
CARE has analyzed TTL's credit profile by considering the consolidated financial statements of the company owing to financial, business and operational linkages between the parent and subsidiaries. Further, all entities operate in the same line of business and under a common management team. Also, in addition to parent- subsidiary linkages, CARE Ratings also assess the strategic importance of the subsidiary to its parent (TML), reputation of listed parent and sharing of common name or brand. The details of the subsidiaries and associates which have been consolidated as on March 31, 2020 are given in Annexure below.

Applicable Criteria
CARE's Criteria on assigning outlook and credit watch to Credit Ratings
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

About the Company
TTL is a global engineering and product development IT services company with focus on service verticals such as Engineering, Research & Development (ER&D) services, 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 is a subsidiary of TML, one of the flagship companies of the Tata Group. TTL has presence in more than 25 countries through its 17 Global Delivery Centers (GDC). As of March 31, 2020, TTL had 8,623 employees serving clients across Asia Pacific, North America and Europe (PY: 9,263).
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	H1FY20 (A)	H1FY21 (A)
Total operating income	2975.74	2886.43	1421.35	1099.03
PBILDT	536.40	504.82	216.96	156.72
PAT	352.60	251.55	94.71	70.88
Overall gearing (times)*^	0.00	0.20	0.19	0.19
Interest coverage (times)^	415.81	32.30	29.76	18.90

A: Audited;
** Net worth adjusted for Goodwill on consolidation and Intangible assets;*
^Not comparable with earlier years as this pertains to the change in accounting policies on financial lease obligations with reference to Ind AS 116, Leases adopted w.e.f April 01, 2019

Status of non-cooperation with previous CRA: NA
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	250.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	250.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (30-Jan-20)	1)CARE AA+; Stable / CARE A1+ (08-Oct-18)	1)CARE AA+; Stable / CARE A1+ (09-Oct-17)

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

Annexure 4: List of subsidiaries and Joint Venture consolidated as on March 31, 2020

Sr. No.	Name of the Entity	Country	% of holding as on March 31, 2020
	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	Cambric 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
9	Escenda Engineering AB	Sweden	100.00
10	INCAT GmbH (in process of liquidation)	Germany	100.00
11	Tata Technologies (Thailand) Limited	Thailand	100.00
12	TATA Technologies Pte Ltd.	Singapore	100.00
13	Tata Technologies Limited Employees Stock Option Trust	India	100.00
14	INCAT International Limited ESOP 2000	UK	100.00
	Joint Venture		
1	Tata HAL Technologies Limited	India	50.00

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

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

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About CARE Ratings:
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