Tata Technologies Limited

March 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	715.00 (Reduced from 765.00)	CARE AA+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings to bank facilities of Tata Technologies Limited (TTL) considers the company's strong brand recall and well-established position in the Engineering, Research & Development (ER&D) segment, and diversified presence across key geographies thus enabling global reach. Ratings also reflect TTL's healthy operational and financial risk profiles, aided by strong debt coverage metrics, and superior liquidity.

On a consolidated basis, TTL's revenues have grown at a compounded annual growth rate (CAGR) of 36.2% for FY21-FY23 (refers to period April 01 to March 31). The revenues improved 25.1% Y-o-Y in FY23 and 26.7% Y-o-Y in 9MFY24. The growth momentum has been maintained alongside continuation of strong profitability margins with profit before interest, lease rentals, depreciation and taxation (PBILDT) margins of 18.71% in FY23 (versus 18.35% in FY22). TTL largely derives its revenue from three different industrial segments, automotive, aerospace, and industrial machinery, wherein the company has established relationship with marquee clients in each segment. This apart, TTL has also forayed into the education sector, though automobiles segment continues to derive majority of the company's revenue.

Anchor clients (refers to combined Tata Motors Limited [TML] and Jaguar Land Rover [JLR]), which account for a revenue share of around 34% in FY23, have recorded a growth of around 35% in FY23. TML, including JLR, witnessed significant improvement in sales volumes, and TML gained substantial market share in the electric vehicles (EV) segment in FY23. TTL has been involved in majority of the new product development and product launch aspects of TML. CARE Ratings Limited (CARE ratings) draws comfort from the fact that TML has multiple product launches lined up, providing medium-term strong revenue visibility for TTL. Going ahead, CARE Ratings expects, while the company will continue its focus towards further diversifying its customer base across various sectors, automobile segment will continue to remain a predominant sector in terms of revenue contribution.

Other major customer- Vinfast had significantly contributed to TTL's revenue in FY23, however the contribution has decreased in H1FY24 and is likely to further drop in H2FY24, owing to completion of certain projects. However, outlook for FY25 stands strong with addition of new external customers in the past few quarters.

Products segment (11% of revenues for FY23) grew 14.9% in FY23. Revenue from this segment acts as ancillary revenue to TTL's main business. TTL resells product lifecycle management (PLM) application software through long-standing relationship with Siemens Industry Software, Dassault Systemes, and Autodesk. Education segment (9% of revenues for FY23) has grown from ₹43 crore in FY21 to ₹446.29 crore in FY22 and to ₹386.87 crore in FY23. TTL has entered agreement with various state governments to upgrade Industrial Training Institutes (ITI) resulting into contracted revenue of ₹2,298 crore to be earned from these projects.

Revenue from North America and Europe contributed around 21% and 23% of the FY23 revenues. The growth momentum has been maintained at 17.3% for Europe and 19.5% for North America, despite the cautious global scenario.

Ratings further reflect TTL's healthy operational and financial risk profiles, aided by strong debt coverage metrics and superior liquidity.

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

The company's financial risk profile continues to remain significantly healthy, aided by strong debt coverage metrics with absence of any term loan and minimal utilisation of working capital limits, while majority of the debt comprises lease liabilities. The overall gearing and total debt/ PBILDT remained strong at 0.09x and 0.31x for FY23. The company remains net debt negative at ₹772 crore as on March 31, 2023, due to high cash and liquid investments (excl. margin money) at ₹1,027.79 crore. The same has consistently stayed above ₹1,000 crore for the past three fiscals. The company has a tendency of parking surplus funds- (which are over and above ₹1,028 crore) with the parent, TML (rated 'CARE AA+; Stable/CARE A1+') in the form of intercorporate deposits (ICDs). ICDs have reduced from ₹484.75 crore as on March 31, 2023 to ₹116 crore as on September 30, 2023. On the other hand, the company has paid dividends of ₹498.97 crore in H1FY24 (pre-IPO).

Ratings have also considered the successful completion of the initial public offering (IPO), with the company being listed on the exchanges on November 30, 2023. The IPO being an offer for sale, TTL has not received any proceeds from it. However, the erstwhile shareholders/promoters have partially diluted their stakes through the IPO. The holding of TML decreased post-IPO to 55.39% (as on December 31, 2023) as compared to 64.79% pre-IPO.

Above rating strengths are offset by concentration of revenue to captive customers, TML and JLR. These captive customers contributed 38% of TTL's consolidated total operating income (TOI) in H1FY24 (H1 refers to the period April 1 to September 30). However, CARE Ratings notes the declining revenue share of captive customers over the years. Going ahead, CARE Ratings 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 EVs across geographies. 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: Factors likely to lead to rating actions.

Positive factors

- Significantly growing scale of operations, and PBILDT margins in the range of 22-25%, while maintaining its strong leverage and liquidity on a sustained basis.
- Reducing customer concentration risk largely from its captive/ group companies.

Negative factors

- Weakening or moderating new order wins in the backdrop of prolonged slowdown in the industry resulting in lower-than-anticipated revenue visibility and delaying execution.
- Major debt-funded acquisition/capex, resulting in deteriorating capital structure with overall gearing above 0.50x.

Analytical approach: Consolidated

CARE Ratings has adopted a Consolidated approach owing to considerable financial, operational and management linkages between TTL and its subsidiaries. The list of subsidiaries considered in the consolidated financial statements as on December 31, 2023, and March 31, 2023, is given below in Annexure-6.

Outlook: Stable

The stable outlook reflects the company's ability of receiving repeat orders from existing customers and addition of new customers within both the automotive and non-automotive space. Alongside the stable demand scenario, the financial risk is also expected to remain excellent with absence of any term loan and superior liquidity, negating the requirement of any major borrowings.

Detailed description of the key rating drivers:

Key strengths

Robust performance and strong profitability

On a consolidated basis, TTL's revenues grew at a CAGR of 36.2% for FY21-FY23. The revenues improved 25.1% Y-o-Y in FY23 and 26.7% Y-o-Y in 9MFY24. The growth momentum has been maintained with continuation of strong profitability margins with PBILDT margins of 18.71% in FY23 (versus 18.35% in FY22).

Anchor clients (contributing around 34% of total revenues) grew at 35.3% for FY23. TML including JLR witnessed significant improvement in sales volumes and gained market share of 84% in EV category for FY23. TTL has been involved in majority of the new product development and product launch aspects of anchor clients. Some successful projects with complete ownership of TTL include internal combustion engine (ICE) to EV conversion for Tata Tigor EV (2021) and Tata Tiago EV (2023). Supposedly, if the product launches for TML were to slow down, TTL would continue to benefit from maintenance, service, and various other re-designing aspects. However, CARE Ratings draws comfort from the fact that TML has multiple product launches lined up providing medium-term revenue visibility for TTL.

Other major customers such as Vinfast are likely to witness lower contribution going ahead. However, outlook for FY25 stands strong with addition of new external customers in the past few quarters. Five large deals won in Q3FY24 including one deal of over USD 50 million (around ₹400 crore) in total contract value (TCV) and another one of over USD 25 million (around ₹200 crore) in TCV.

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

TTL derives strong brand recall owing to its brand image and its long-established position in the ER&D division since last three decades. TTL derived around 34.1% of its overall revenue from its two captive customers (TML and JLR) in FY23 and 37.7% in H1FY24. All the orders from one of its captive customers are bid-based and TTL does not receive 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 having 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 19 global delivery centres in the US, 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. The company has several orders from the state governments including Government of Karnataka, Government of Bihar, Government of Assam, and Government of Tamil Nadu among others for transforming government ITIs into technology centres with modern infrastructure and training facilities to meet the industry 4.0 standard.

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

TTL's financial profile is robust with strong cash accruals as against absence of long-term debt. According to CARE Ratings' analysis, the total debt comprises only lease liabilities. Overall gearing was 0.09x while total debt by gross cash accruals (GCA) was 0.41x as on March 31, 2023. GCA climbed from ₹513.87 crore in FY22 to ₹629.54 crore to FY23 and around ₹600 crore in 9MFY24. However, net cash accruals for 9MFY24 were relatively low at ₹100 crore due to high dividend payout before IPO. Given that the GCA is quite strong, just the internal accruals and surplus cash and liquid investments would suffice for acquisitions or expansion plans if any.

The net worth is sturdy at ₹2,989.45 crore as on March 31, 2023. The company's liquidity is superior with cash and liquid investments of ₹1,027.79 crore as on March 31, 2023, and have consistently stayed above ₹1,000 crore for the past three fiscals. However, the company has tendency of parking surplus funds with the parent, Tata Motors, in the form of ICD. ICDs have reduced from ₹484.75 crore as on March 31, 2023 to ₹116 crore as on September 30, 2023. Interest rates were 7.25% as on September

30, 2023, and have ranged from 5% to 7.75% in the past few fiscals. Due to IPO, the company's liquidity has further strengthened with ease of access to capital markets.

Cyclicality in auto industry has had low impact on fluctuation in TTL's profitability margins in the past

Within services segment, automotive segment contributes around 85-90% of the overall revenues due to major clients being TML, JLR and later Vinfast (Vietnam-based EV manufacturer). Overall exposure to automobiles sector is likely to be around 70%. During the downturn for the auto industry (FY20 and FY21), net sales declined by 2.8% and 15.9% Y-o-Y, while profit after tax (PAT) margins declined to around 8.8% in FY20 and later improved to 10.1% in FY21. During such down times as on March 31, 2021, owing to surplus generation of operating cash flows, ICDs of Around ₹250 crore were extended to parent, while cash and cash equivalents remained strong during the downturn in the auto industry. CARE Ratings expects, while this downturn will create some turbulence in the short to medium term, the same is unlikely to having any harsh impact on TTL's credit profile.

Liquidity: Superior

The company's liquidity continues to remain superior with cash and liquid investments of ₹1,027.79 crore as on March 31, 2023, and having been consistently remaining above ₹1,000 crore in the past three fiscals. However, the company has a tendency of parking surplus funds with the parent, TML, in the form of ICDs, which have reduced from ₹484.75 crore as on March 31, 2023, to ₹116 crore as on September 30, 2023. The company has paid dividends of ₹498.97 crore in H1FY24 (pre-IPO).

TTL has fund-based limits of ₹204 crore, for which utilisation remained nil/negligible. The utilisation of non-fund-based limits remained moderate, aiding the liquidity buffer. The current ratio stood at 1.92x in FY23 and lean operating cycle negates any requirement of working capital in the projected period.

Key weaknesses

Higher customer concentration risk

Around 38% of TTL's revenues for H1FY24 comes from its top two captive customers- TML and JLR, posing 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 around 50% in FY20 and further down to 30-40% range currently. The company has been actively focusing on acquiring non-captive customers and various state government orders by taking necessary steps, which shall help it diversify its clientele base and thus increase revenues from external customers.

Susceptibility to competition and technological obsolescence

The company serves customers largely in the engineering, design and technology domains that are undergoing rapid changes and innovation. For auto original equipment manufacturers (OEMs), adaptation to the customers' changing needs and expectations, that is, switch to electrification, connected and autonomous driving systems among others is highly expected. Adaptability to these changes needs to be dynamic to avoid OEMs shifting to other competitors. This may also be a potential threat due to workforce skill obsolescence. However, TTL has been investing in research and development (R&D) activities, reskilling and up-skilling of the workforce, which shall help it in updating its designs and manufacturing varieties of products for the customers. New energy vehicle companies contributed 26.4% of the revenues in FY23.

Exposed to foreign currency fluctuation risk

Around 60-70% of the company's revenues are derived in foreign currencies. TTL uses forward exchange contracts to partly mitigate the risks of adverse currency movements. The unhedged foreign currency outstanding stood at ₹548.54 crore as on March 31, 2023 and ₹575.54 crore as on September 30, 2023. TTL uses forward exchange contracts to hedge its exposure in foreign currency. However, given unhedged exposure is high, the company is susceptible to adverse currency movements.

Attrition risk and protectionist measures

TTL's attrition rate at the consolidated level was at 21.7% for FY23 and around 17.2% for H1FY24. Higher attrition rate could result in increased employee costs and lower profitability. Increasing protectionist measures imposed by few developed economies, changes in immigration laws or any local regulations may result in workforce mobilisation and increased employee and operational costs, thus impacting the margins.

Environment, social, and governance (ESG) risks

	Risk factors
Environmental	**GHG emissions: Low** TTL focuses on designing greener products, accurately and with minimal waste. Additionally, GHG emissions relatively lower due to service sector.
Social	**Gender diversity efforts: Adequate** Through Empowerment via Education, started in 2014-2015, under the Ready Engineer umbrella, TTL provides funding to support meritorious girls coming from low-income families in completing their engineering studies. **Attrition rate: High** Attrition rate high at 21.70% for last 12 months ending March 2023.
Governance	**Board independence: Majority** Majority of the board comprises independent directors. **Data governance risk: Moderate** The industry is inherently exposed to risks related to cybersecurity, information security, and data privacy. Adequate data governance practices in place.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Withdrawal Policy
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Information technology	Information technology	IT - Services	IT-enabled services

Incorporated on August 22, 1994, and headquartered in Pune, TTL, is a subsidiary of TML (rated 'CARE AA+; Stable/ CARE A1+', as on March 13, 2024). TTL is a global engineering and product development services company and was initially a dedicated department of TML, handling 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 as a separate entity. Over the years, the company has moved up the value chain and presently offers its services through the 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, with 19 global delivery centres (GDCs) in the US, Europe, India, China, and South-East Asia.

Brief Consolidated Financials (₹ crore)	FY2022 (A)	FY2023 (A)	9M FY24 (UA)
Total operating income	3,532.10	4,420.12	3,816.15
PBILDT	648.17	826.88	701.31
PAT	436.97	624.03	522.13
Overall gearing (times)	0.11	0.09	-
Interest coverage (times)	29.60	45.99	48.20

A: Audited; UA: Unaudited; Note: 'these are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	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		-	-	-	715.00	CARE AA+; Stable / CARE A1+

Note: Withdrawal for Bank of America limits due to the facility not being executed/live. There are no outstanding dues, and the facility has been resultantly cancelled by the banker since October 2022.

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Fund-based - LT/ ST-CC/Packing credit	LT/ST	715.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (03-Jan-23)	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)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities -Not applicable

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated.

Sr No.	Name of the entity	Extent of consolidation	Rationale for consolidation	Shareholding (as on December 31, 2023)
	Direct Subsidiaries			
1	TATA Technologies Pte. Ltd.	Full	Subsidiaries, with significant operational and management linkages.	100.00
	Indirect Subsidiaries			
2	Tata Technologies (Thailand) Limited	Full		100.00
3	Tata Manufacturing Technologies Consulting (Shanghai) Limited	Full		100.00
4	INCAT International Plc.	Full		100.00
5	Tata Technologies Europe Limited	Full		100.00
6	Tata Technologies Nordics AB	Full		100.00
7	Tata Technologies GmbH	Full		100.00
8	Tata Technologies Inc.	Full		99.80
9	Tata Technologies de Mexico, S.A. de C.V ** (in process of liquidation)	Full		99.80
10	Cambric Limited, Bahama **	Full		99.80
11	Tata Technologies SRL, Romania **	Full		99.80
12	Tata Technologies Limited Employees Stock Option Trust	Full		100.00
13	INCAT International Limited ESOP 2000	Full		100.00

** For these subsidiaries though the holding is 99.80%, the indirect voting power is 100%.

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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