July 15, 2015

CARE REAFFIRMS RATINGS ASSIGNED TO THE BANK FACILITIES OF TECH MAHINDRA LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	900	**CARE AAA (Triple A)**	Reaffirmed
Short-term Bank Facilities	300	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**1,200**		

Rating Rationale

CARE has reaffirmed its ratings of 'CARE AAA' for the long-term facilities and 'CARE A1+' for the short-term bank facilities of Tech Mahindra Limited (TML). The ratings of TML factor in its strong parentage (Mahindra & Mahindra Ltd rated 'CARE AAA/CARE A1+'), its extensive track record with a diversified business profile, a strong and experienced management team, strong debt matrices and a robust capital structure.

TML is a part of the Mahindra group, which has a proven business leadership across diverse sectors in India. The merger of TML with Mahindra Satyam Limited (MSL) and acquisition of Lightbridge Communications Corporation (LCC) and Sofgen Holdings Limited (Sofgen) has led to an improvement in its business risk profile on account of sector-wise and geographic diversification while enabling it to expand its customer base.

The company has strong debt repayment matrices supported by low gearing, steady cash accruals, and healthy coverage ratios. The financial position of the company is expected to remain strong on account of its limited debt requirements, a healthy capital structure and adequate cash and bank balances.

While the company's operating performance has come under pressure in last few quarters due to adverse currency movements, one time integration related costs and deterioration in utilization levels, the company is likely to post improvement in operating margin going forward on back of various initiatives to improve the utilization and benefits of integration of recent acquisitions which are likely to accrue from H2FY16 (refers to the period October 1 to March 31).

Any large debt-funded acquisitions and any adverse development with respect to legal proceedings in respect of financial irregularities of erstwhile Satyam Computers Services Limited remain the key rating sensitivities.

Background

TML is a Mahindra & Mahindra group (M&M) company engaged in the business of providing Information Technology (IT)-based solutions to various clients. The company has a diversified clientele spread across North America, Europe, and Asia Pacific. The company was incorporated in 1986 as Mahindra British Telecom as a Joint venture between the M&M and British Telecom. In FY12-13 (refers to the period April 1 to March 31), British Telecom sold its entire stake in the company and is no longer a shareholder / promoter of the company. MSL (erstwhile Satyam Computer Services Limited) was merged with the company in 2013. The company acquired 100% stake in LCC and Sofgen in FY15.

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

The company reported net sales of Rs. 22,878 crore and a profit after tax (PAT) of Rs. 2,659 crore for FY15 as against net sales of Rs. 19,102 crore and a PAT of Rs. 3,062 crore for FY14.

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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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