Tata Technologies Limited

January 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	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 (Rupees Two Hundred Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of 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 base 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 growth in revenue, healthy profitability margins in FY19 (refers to the period April 01 to March 31); robust capital structure and debt coverage indicators aided by debt-free status and strong liquidity position.

The rating strengths, however, are constrained by revenue concentration risk, susceptibility to slowdown in end user automotive industry and presumable moderation in profitability in the near term, inherent risk associated with technological obsolescence & protectionism and foreign exchange fluctuation risk.

<u>Rating Sensitivities</u>

Positive factors

- Ability of the company to 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 captive customers

Negative factors

- Any weakening or moderation in the order book position resulting in lower than anticipated revenue visibility and delay in execution.
- Any incremental sizable debt-funded acquisition 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), one of the flagship companies of the Tata Group. TML is one of the leading automotive manufacturers in India. TTL continues derive strength from a strong board of directors who bring in global business perspective and provide the necessary guidance to the management. The top management team 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 around 17 GDC's spread across 25 countries in 4 continents serving its clients.

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

Moreover, TTL continues to derive substantial revenues from UK and European markets (~40% of TOI for the past three years ended FY19) followed by Asia Pacific (including India) (~35%) and remaining from North America. In the past three years ended FY19, TTL entered into newer geographies such as China and Sweden where it can tap into emerging opportunities and acquire new clients.

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 70-80% of engineering services revenue for the past three years ended FY19. The company continues to have established relationships with marquee clients in the automotive (excluding TML and 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.

Growth in total operating income and profitability in FY19
The company registered a growth of ~7% in Total operating income (TOI) to Rs.2975.74 crore in FY19 as against Rs.2773.59 crore in FY18 largely on account of increase in services revenue segment (which forms nearly 85% of total revenue) aided by healthy order execution capabilities of TTL. In addition, TTL generates significant revenues (in excess of 50% of revenue) in foreign currencies largely in GBP &USD and was benefitted from favorable movement in exchange rates during FY19. PBILDT margin improved to 18.03% in FY19 from 15.05% in FY18 primarily on account of significant shift in business to offshore centers. TTL registered a PAT of Rs.352.60 crore in FY19 as against Rs.245.81 crore in FY18 on account of healthy operating profit and negligible interest costs. PAT margin improved to 11.85% in FY19 as against 8.86% in FY18.
However, the company registered total revenue of ~Rs.1421 crore in H1FY20 (Unaudited) as against ~Rs.1470 crore in H1FY19 (Unaudited) with a PAT margin of 6.67% in H1FY20 as against 12.48% in H1FY19. Overall profitability is expected to remain moderate over the near to medium term as reflected above on account of ongoing slowdown in the global and domestic auto industry. Revival in the auto industry and thereby improvement in the financial profile would remain key rating monitorable.

Robust capital structure and debt protection metrics
Capital structure and debt protection metrics improved and continued to remain healthy with overall gearing of zero (nil) as on March 31, 2019 as against 0.07x as on March 31, 2018 and Total debt to GCA (TDGCA) of 'nil' as at March 31, 2019 as against 0.22x as at March 31, 2018. Interest coverage improved and was seen at 415.81x in FY19 as against 88.81x in FY18. TTL is a debt free company as on March 31, 2019 and as on September 30, 2019 baring the financial lease obligations. Healthy accretion of profits to reserves and scheduled repayment of debt obligations and near zero reliance on working capital borrowings resulted in augmented net worth of the company and robust capital structure respectively as on March 31, 2019.
Going ahead, any incremental sizable debt-funded acquisition which can moderate the capital structure 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 automotive industry
Around 50% of the Company's total service revenue comes from its top two captive customers- Tata Motors Limited (TML) and Jaguar Land Rover (JLR). Revenue from top 10 customers contributed nearly 78% of revenue in FY19. Hence, this poses a significant revenue concentration risk for the company if it loses on any 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 OEMs clientele base by acquiring newer geographies like Vietnam, Nordics etc. over and above the low cost nations such as South East Asia and China. Consequently, TTL has reduced its dependence on captive customers from 70% of TOI in FY15 to nearly 50% of TOI in FY19.
Above all, with over 70% of the revenues being derived from the automotive segment, the revenue streams are exposed to any prolonged slowdown in the automotive industry. The same is reflected in the current slowdown. However, acquisition of new customers and orders within other key sector such as aerospace would help mitigate the risk to some extent.

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 Original Equipment manufacturers (OEMs) to shift to other capable competitors and even 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 increases 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 larger extent.

Liquidity: *Strong*
Liquidity of TTL is marked by healthy cash accruals and cash & cash equivalents (including liquid investments) to the tune of Rs.206.14 crore as on September 30, 2019 as against Rs.372.53 crore as on March 31, 2019. With negligible gearing levels as of March 31, 2019, TTL has sufficient gearing headroom, to raise additional debt for its capital expenditure programmes or any major debt funded acquisition. In addition, unutilized bank lines of around Rs.450 crore provide additionally liquidity cushion. Current ratio of the company stood at 2.74x as on March 31, 2019 as against 2.01x as on March 31, 2018.

Industry
IT & ITes companies derive a material portion of their revenues from customers' discretionary spending which is linked to their business outlook. Political disruptions or volatile economic conditions shall lead to reduced spending, which could restrict revenue growth opportunities for Indian IT companies. CARE expects Indian IT industry growth to moderate between 6-8% in FY20, owing to macro uncertainties and expectation of lower spending growth in budgets in verticals like BFSI. Increasing restrictions on H-1B visas in the US and rising cost of delivering on-site services shall impact margins in FY20.

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. The details of the subsidiaries and associates which have been consolidated as on March 31, 2019 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
Rating Methodology - Service Sector Companies
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation & Factoring Linkages in Ratings

About the Company
Tata Technologies Limited (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. The company has presence in more than 25 countries through its 17 Global Delivery Centers (GDC). As of March 31, 2019, TTL had more than 9200 employees serving clients across Asia Pacific, North America and Europe. TTL is a subsidiary of Tata Motors Limited (TML), one of the flagship companies of the Tata Group.
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	H1FY20(UA)
Total operating income	2773.59	2975.74	1421.35
PBILDT	417.43	536.40	216.96
PAT	245.81	352.60	94.71
Overall gearing (times)*	0.07	0.00	0.19^
Interest coverage (times)	88.81	415.81	29.76^

A: Audited; UA: Unaudited
** 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: None

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	250.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (08-Oct-18)	1)CARE AA+; Stable / CARE A1+ (09-Oct-17)	1)CARE AA+ / CARE A1+ (20-Oct-16)

Annexure-3: NA

Annexure of subsidiaries and Joint Venture consolidated as on March 31, 2019

Sl.No.	Name of the Entity	Country	% of holding as on March 31, 2019
	Subsidiaries		
1	INCAT International Plc.	UK	100.00
2	Tata Technologies Inc.	USA	99.81
3	Tata Technologies de Mexico, S.A. de C.V.	Mexico	99.81
4	Cambric Limited, Bahamas	Bahamas	100.00
5	Cambric GmbH (in process of liquidation)	Germany	100.00
6	Tata Technologies SRL, Romania	Romania	100.00
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
	Joint Venture		
1	Tata HAL Technologies Limited	India	50.00

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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