

Tech Mahindra Ltd

July 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	900	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	300	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	1,200 (Rupees One Thousand Two Hundred crore only)		

Rating Rationale

The ratings of Tech Mahindra Limited (TML) factor in its strong parentage (Mahindra & Mahindra Ltd; rated 'CARE AAA; Stable/CARE A1+'), its extensive track record with a diversified business profile, a strong and experienced management team, strong debt metrics and a robust capital structure.

TML is a part of the Mahindra Group and promoter holding is ~36% stake, which has a proven business leadership across diverse sectors in India. The merger of TML with Mahindra Satyam Limited (MSL) and series of acquisitions has led to an improvement in its business risk on account of sector-wise and geographic diversification while enabling it to expand its customer base.

The company also has strong debt repayment matrices supported by significantly low debt, steady cash accruals, and very strong liquidity position. The financial position of company is expected to continue to remain strong on account of its limited debt requirements and no near term cash outflow plan, a healthy capital structure and adequate cash and bank balances.

Limitation over recent time IT industry turbulence, impact of ongoing investigations and legal proceedings in respect of financial irregularities of erstwhile Satyam Computers Services Limited, and any large debt-funded acquisitions remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Professional & experienced management and a strong promoter group

The management team at TML is led by Mr Vineet Nayyar (Vice Chairman) having over 40 years of professional experience across government and private sectors. He is supported by Mr C P Gurnani (Managing Director and Chief Executive Officer) who supervises the day-to-day working of the company.

Mr C P Gurnani, has over 32 years of experience in the areas of International Business Development, Joint Ventures, Mergers and Acquisitions.

The company is a part of the USD 21 Billion India conglomerate Mahindra Group and is managed by a highly competent and experienced team of professionals with extensive experience in the Information Technology space.

Extensive track record with a diversified business risk profile

The company has a diversified business profile with a well-balanced geographic exposure, strong domain expertise across various industries, and a spread out clientele. The company derived about ~46% of its revenues from Americas, ~30% from Europe and ~24% from the Rest of the World for FY18 (refers to the period April 1 to March 31) limiting its dependence on any single geography adding to revenue healthiness. The company has deep domain expertise across

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

various sectors with Communication sector contributing 43.3%, Manufacturing 19.2%, Banking, Financial Services and Insurance 13.7%, Technology Media and Entertainment (TME) 6.4%, Retail, transport and Logistics 6.8% and others 10.6%. The company also has a well-diversified clientele with Top 5 clients contributing around 24.2%, Top 10 contributing 34.3% of its revenues and Top 20 contributing 46.3% of the revenues. This also provides an opportunity to the company to further strengthen its relationships with these clients for larger business.

Extremely strong debt servicing ability and a robust capital structure

The company has an extremely strong debt servicing capability reflected in its highly comfortable debt service coverage (DSCR) and interest coverage ratios. It also has a robust capital structure with an overall gearing of 0.15 times and a healthy networth of about Rs.16,131 crore as on March 31, 2018. The company has healthy Interest coverage ratio to 35 times in FY18 on account of limited interest payments. The company also has substantial financial flexibility on account of its strong liquidity position, cash and current investments of Rs.7,624 crore at end FY18 and limited repayment obligations. The company is expected to maintain its robust debt servicing ability in the medium term backed by strong liquidity position, consistent cash accruals, and limited debt requirements. Any large debt-funded acquisition by the company would remain a key rating sensitivity.

Improved profitability due to operational efficiency and non-operational income

The company has witnessed improvement in its margins in the current year. The PBILDT margin has improved to 18.04% FY18 from 16.4% FY17. The profitability improvement has driven by increase in utilization to 84% in FY18 as against 77% FY17, losses related to LCC has been reduced, acquisition of high margin businesses and automation. Profitability has also improved due to non-operational income like increase in the treasury gain, sale of land, hedging gain.

LCC is expected to show further improvement in FY19. Furthermore, going forward, the company also intends to improve its operational efficiency through operational leverage.

Key Rating Weaknesses

Pending investigations and legal proceedings

Impact of ongoing investigations and legal proceedings by various regulators and investigating agencies in respect of financial irregularities pertaining to erstwhile Satyam Computers Ltd and the ability to improve operating margins amongst rising direct costs are the key rating sensitivities. However, the company has already provided for Rs.1,230 crore for contingency.

Analytical approach: Consolidated

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Service Sector Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

TML is an M&M group company engaged in the business of providing Information Technology-based (IT) solutions to various clients. TML is USD 4.8 billion the company with 112,900+ professionals across 90 countries, helping over 910 global customers including Fortune 500 companies. The company has clientele – countries spread across in America, Europe, and Asia Pacific. The company was incorporated in 1986 as Mahindra British Telecom as a Joint venture between the Mahindra Group and British Telecom. In FY12-13, British Telecom sold its entire stake in the company and is no longer

a shareholder / Promoter of the company. Mahindra Satyam (erstwhile Satyam Computer Services) was merged with the company in 2013.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	29854.70	31778.70
PBILDT	4904.60	5733.90
PAT	2850.90	3786.20
Overall gearing (times)	0.09	0.15
Interest coverage (times)	38.14	35.31

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Non-fund-based - LT-BG/LC	-	-	-	900.00	CARE AAA; Stable
Fund-based - ST-Others	-	-	-	300.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT-BG/LC	LT	900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA (20-Jul-16)	1)CARE AAA (15-Jul-15)
2.	Fund-based - ST-Others	ST	300.00	CARE A1+	-	1)CARE A1+ (18-Jul-17)	1)CARE A1+ (20-Jul-16)	1)CARE A1+ (15-Jul-15)

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