Tech Mahindra Ltd

July 18, 2017

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 holding ~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 increase profitability, 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 19 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 ~45% of its revenues from North America, ~30% from Europe and ~25% from the Rest of the World for FY17 (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 various sectors with Communication sector contributing 47%, Manufacturing 19%, Banking, Financial Services and Insurance 14.1%, Technology Media and Entertainment (TME) 6.2%, Retail, transport and Logistics 6.5% and others 7.7%. The company also has a well-diversified clientele with Top 5 clients contributing around 27%, Top 10 contributing 38% of its revenues and Top 20 contributing 49% 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

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

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 0.09 times and a healthy networth of about Rs.14,844 crore as on March 31, 2017. The company has healthy Interest coverage ratio to 38 times in FY17 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.5,262 crore at end FY17 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.

Key Rating Weaknesses

Pressure on profitability due to SGA Expenses and LCC business

The company has witnessed an adverse impact in its margins in the current year. The PBILDT margin has reduced from 17.3% FY16 to 16.3% FY17 which has also impacted its PAT margins which reduced to 9.83% FY17 from 12.13% in FY16. The reduction in operating margins is on account of increase in employee cost, acquisition of low margin companies like LCC and Sofgen and an increase in the Selling and General Administration (SG&A) expenses.

LCC is expected to break even in FY18 as a result of steps taken by the company including clean-up process by terminating non profitable contract by paying one time charges to the clients and controlling operating cost by reducing number of employees by giving severance pay. Furthermore, going forward, the company also intends to improve its operational efficiency through operational leverage.

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
Criteria for Short Term Instruments
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. The company has clientele – countries spread across in North 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. As per a part of its growth strategy, the company acquired LCC a network company in FY15, stake in Pininfarina in FY16 and Target, The BIO Agency and CJS in the FY17.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	26,893	29,855
PBILDT	4,658	4,905
PAT	3,263	2,934
Overall gearing (times)	0.08	0.09
Interest coverage (times)	48.02	38.14

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (16-Jul-14)
2.	Non-fund-based - LT-BG/LC	LT	900.00	CARE AAA; Stable	-	1)CARE AAA (20-Jul-16)	1)CARE AAA (15-Jul-15)	1)CARE AAA (25-Nov-14) 2)CARE AAA (16-Jul-14)
3.	Fund-based - ST-Others	ST	300.00	CARE A1+	-	1)CARE A1+ (20-Jul-16)	1)CARE A1+ (15-Jul-15)	1)CARE A1+ (25-Nov-14) 2)CARE A1+ (16-Jul-14)

CARE Ratings
Professional Risk Opinion

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