

Tech Mahindra Limited

August 20, 2019

Ratings

Facilities	Amount (Rs.crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	1200.00 (enhanced from 900.00)	CARE AAA; Stable [Triple A; Outlook : Stable]	Reaffirmed
Long-term Bank Facilities/ Short-term Bank Facilities	600.00 (enhanced* from 300.00)	CARE AAA; Stable/ CARE A1+ [Triple A; Outlook: Stable / A One Plus]	Reaffirmed
Total Facilities	1,800.00 (Rupees One Thousand Eight Hundred crore only)		

Details of instruments/facilities in Annexure-1

**change in nature of bank facilities*

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of Tech Mahindra Limited (TechM) continues to factor in its strong parentage (Mahindra and Mahindra group, M&M), geographically diversified operations, diversified service profile with dominant market position in the communication segment within Indian information technology (IT) space, strong financial risk profile marked by steadily growing revenues, stable profitability, comfortable capital structure and strong liquidity and debt coverage indicators.

The ratings also derive strength from qualified & experienced management team with demonstrated execution capabilities; steady operational indicators including utilisation rate and new deal win rate and growing clientele base.

While TechM has gradually diversified its revenues across different verticals, TechM's revenue profile continues to be dominated by a single vertical i.e. communication, which also leads to customer concentration to some extent. Although a few acquisitions in recent past have been successful and have provided growth opportunities, many of the acquisitions are yet to derive synergy benefits and make meaningful contribution.

Competition from other players amidst constant technological changes, ability to achieve cost effective hiring and retention of employees with required skill sets to respond to the changes, cyclicity in end user sectors, regulatory changes in various geographies and fluctuations in foreign exchange rates have a direct bearing on the company's revenue growth and profitability.

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

Strong parentage coupled with established track record of the company along with experienced management team

TechM is a part of the Mahindra and Mahindra group, with promoters holding ~36% stake. Over a span of more than three decades, TechM has grown organically and inorganically, adding diverse business verticals, geographies and clientele. The merger of TechM with Mahindra Satyam Limited (MSL) and series of acquisitions led to improvement in overall business risk profile of TechM. The management team at TechM is led by Mr. C P Gurnani (MD and CEO) who supervises the day to day operations of the company, has more than 3 decades of experience in the areas of International Business Development, Joint Ventures, Mergers and Acquisitions. He is accompanied by a highly competent and experienced team of professionals with extensive experience in the Information Technology space.

Further, the board of directors forms an integral part of TechM in the form of sound decision making and day to day operations & management of the company.

Business risk profile marked with strong domain expertise coupled with diversified business verticals, client mix and wide geographical presence albeit customer and vertical concentration risk prevails

TechM has deep capabilities across verticals – Communication and Enterprise (Manufacturing, BFSI, Technology, Media and Entertainment (TME), Retail, transport and logistics (RTL), healthcare etc.), catering to more than 930 active clients (with a ~95% repeat business) spread across Americas, Europe and rest of the world. TechM continues to derive significant share (~41%) of revenues from the communication sector which exposes TechM to cyclicity in IT services spend by these clients. Nevertheless TechM has been taking various diversification steps which resulted in gradual decline of concentration in

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

communication vertical from 52% in FY16 to 41% in FY19. Communication vertical is likely to be the dominant revenue contributor going forward for TechM.

TechM has a well-diversified clientele base with Top 5 clients contributing around 23%, Top 10 contributing 32% of its revenues and Top 20 contributing 45% of revenues for FY19.

Large scale of operations coupled with stable profitability

TechM registered a 12.90% y-o-y growth in net revenue from Rs.30772.90 crore in FY18 to Rs.34742.10 crore in FY19. TechM reported a growth of ~10% in Total operating income (TOI) to Rs.34949.90 crore in FY19 from Rs.31778.70 crore in FY18. In constant currency terms, the company registered a growth of ~6% y-o-y in FY19. In dollar terms, TechM registered a 4.2% y-o-y growth in revenue from USD 4770.8 million in FY18 to USD 4970.5 million in FY19. Dominant position in communication vertical, improved performance of enterprise business, growing digital portfolio and considerable increase in Total contract value (TCV) of deal wins also attributed to the increase in revenue.

PBILDT margin improved for FY19 and stood at 18.73% as against 18.04% in FY18, resulting from efficient project management, and incremental contribution from high yielding digital segment (which formed ~31% of revenue) and improvement in key operational levers. TechM reported a PAT margin of 12.27% in FY19 as against 11.91% in FY18.

During Q1FY20, TechM registered a TOI of Rs.8819.93 crore (Q1FY19: Rs.8328.00 crore) and PAT of Rs.949.10 crore (Q1FY19: Rs.899.50 crore).

Comfortable capital structure and strong debt coverage indicators

The net worth of the company as on March 31, 2019 stood at Rs.17945.70 crore as against Rs.16579.10 crore as on March 31, 2018. Substantial accretion of profits to reserves and scheduled repayment of loans and financial lease obligations resulted in further improvement in capital structure and debt coverage indicators. Healthy cash flow generation has helped TechM drastically reduce its debt levels and reliance on external borrowings to fund its working capital as well as capital expenditure programs. Overall gearing as on March 31, 2019 stood low at 0.11x as against 0.14x as on March 31, 2018. Interest coverage was seen high at 49.13x during FY19 (PY: 35.31x). TDGCA was seen low at 0.38x as at March 31, 2019 (PY: 0.50x). 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 sizeable debt funded acquisition by the company would remain a key rating monitorable.

Liquidity: Strong

The operating cycle of TechM during FY19 stood at 42 days, similar to that during FY18. On a standalone level, the fund based limits are rarely utilized by TechM and it majorly relies on internal accruals for working capital requirements.

The company also has substantial financial flexibility on account of its strong liquidity position with free cash and cash equivalent (includes only cash, bank balance & current investments and excludes earmarked bank balances) of ~Rs.8888.00 crore as on March 31, 2019. The same stood at Rs.7258.00 crore as on June 30, 2019.

Despite the buyback program of shares close to USD 270 million and a dividend of Rs.14 a share, TechM is expected to maintain healthy cash balance throughout the year. Further, the company is expected to maintain its robust debt servicing ability in the medium term backed by strong liquidity position, consistent cash accruals, and minimal debt repayments.

Key Rating Weaknesses

Visa regulations, foreign exchange fluctuation risk, stiff competition from IT majors

Increasing protectionist measures imposed by few economies, changes in immigration laws or any local regulations which increases the H-1B visa denials can impact the profitability and growth of the company. With majority of revenue coming from exports, TechM faces headwinds on account of adverse currency movements in some of the major currencies in which it bills its clients, USD, GBP and EURO against INR. However, the company follows a stated hedging policy which mitigates the risk to a larger extent. Payments to overseas employees in respective foreign currencies also provides natural hedge to some extent. TechM's presence in a highly competitive industry leads to pricing pressure, deal re-negotiations and deferrals and hence can impact company's growth and profitability. Additionally, amidst the rising competition, retention of the skilled resource base (1,21,082 as on March 31, 2019) would have a direct bearing on the company's revenue growth and profitability.

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. There are contingent payments related to other transactions, which, if materialised, are unlikely to have material impact on TechM's overall financial risk profile.

Analytical Approach: Consolidated

CARE has analyzed TechM's credit profile by considering the consolidated financials of the company owing to financial, business and operational linkages between the parent and subsidiaries. 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 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: Factoring Linkages in Ratings](#)

About the Company

TechM is an M&M group company engaged in the business of providing Information Technology-based (IT) solutions to various clients. TML is USD 4.9 billion the company with 121,000+ professionals across 90 countries, helping over 940 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 (Consolidated) (Rs. crore)	FY18 (A)	FY19 (A)	Q1FY19 (A)	Q1FY20 (A)
Total operating income	31778.70	34949.90	8328.00	8819.93
PBILDT	5733.90	6544.70	1408.55	1481.03
PAT*	3786.20	4288.80	899.50	949.10
Overall gearing (times)	0.14	0.11	NA	NA
Interest coverage (times)	35.31	49.13	46.18	32.62

A: Audited; NA: not available, Latest debt position/bifurcation is not available with CARE

*PAT is before minority interest and PAT margin (PAT %) is based on revenue plus other operating income

Net worth includes other intangible assets but excludes Goodwill on consolidation of Rs.2772.70 crore and Rs.2816.30 crore as on March 31, 2018 and March 31, 2019 respectively.

Brief Financials (Standalone) (Rs. crore)	FY18 (A)	FY19 (A)	Q1FY19 (A)	Q1FY20 (A)
Total operating income	25059.90	27857.70	6423.61	7017.90
PBILDT	5300.00	5910.00	1238.07	1218.40
PAT	3993.90	4380.40	910.90	822.70
Overall gearing (times)	Nil	Nil	NA	NA
Interest coverage (times)	74.86	137.12	155.40	100.69

A: Audited; NA: not available, Latest debt position/bifurcation is not available with CARE

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
Non-fund-based - LT-Bank Guarantees	-	-	-	900.00	CARE AAA; Stable
Fund-based/Non-fund-based-Long Term	-	-	-	300.00	CARE AAA; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	200.00	CARE AAA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	43.00	CARE AAA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	225.00	CARE AAA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	82.00	CARE AAA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	50.00	CARE AAA; 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.	Non-fund-based - LT-Bank Guarantees	LT	900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Jul-18)	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA (20-Jul-16)
2.	Fund-based/Non-fund-based-Long Term	LT	300.00	CARE AAA; Stable	-	1)CARE A1+ (05-Jul-18)	1)CARE A1+ (18-Jul-17)	1)CARE A1+ (20-Jul-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	200.00	CARE AAA; Stable / CARE A1+	-	-	-	-
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	43.00	CARE AAA; Stable / CARE A1+	-	-	-	-
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	225.00	CARE AAA; Stable / CARE A1+	-	-	-	-
6.	Fund-based/Non-fund-based-LT/ST	LT/ST	82.00	CARE AAA; Stable / CARE A1+	-	-	-	-
7.	Fund-based/Non-fund-based-LT/ST	LT/ST	50.00	CARE AAA; Stable / CARE A1+	-	-	-	-

Annexure 3: Subsidiaries /Associates consolidated in the financial statements as on March 31, 2019

Serial No.	Name of the Entity	% of holding as on March 31, 2019
	Subsidiaries	
1.	Tech Mahindra (Americas) Inc.	100.00
2.	Tech Talenta Inc.	100.00
3.	FixStream Networks Inc.	73.38
4.	Fixstream India Pvt Ltd	73.38
5.	Tech Mahindra Gmbh	100.00
6.	TechM IT- Services Gmbh	100.00
7.	Tech Mahindra Norway	100.00
8.	Tech Mahindra (Singapore) Pte Limited	100.00
9.	Tech Mahindra (Thailand) Limited	100.00
10.	PT Tech Mahindra Indonesia	100.00
11.	Tech Mahindra ICT Services (Malaysia) SDN. BHD	100.00
12.	Tech Mahindra (Beijing) IT Services Limited	100.00
13.	Tech Mahindra (Nigeria) Limited	100.00
14.	Tech Mahindra (Bahrain) Limited. S.P.C.	100.00
15.	Tech Mahindra Business Services Limited	100.00
16.	Tech Mahindra South Africa (Pty) Limited	48.96
17.	Tech Mahindra (Shanghai) Co Ltd	100.00
18.	Tech Mahindra (Nanjing) Co. Ltd	100.00
19.	Tech Mahindra Technologies, Inc.	100.00
20.	Citisoft Plc.,	100.00
21.	Citisoft Inc.,	100.00
22.	Tech Mahindra Servicios De Informatica Ltda	100.00
23.	Tech Mahindra De Mexico S.DE R.L.DE C.V	100.00
24.	Satyam Venture Engineering Services Private Limited	50.00
25.	Satyam Venture Engineering Services (Shanghai) Co Limited	50.00
26.	Satven GmbH	50.00
27.	vCustomer Philippines Inc.,	100.00
28.	vCustomer Philippines(Cebu), Inc.	100.00
29.	Mahindra Engineering Services (Europe) Limited	100.00
30.	Mahindra Technologies Services Inc	100.00
31.	Tech Mahindra DRC SARLU	100.00
32.	NTH Dimension Ltd	100.00
33.	Tech Mahindra Arabia Limited	51.00
34.	Tech Mahindra Growth Factories Limited	100.00
35.	Tech Mahindra Netherlands B.V.	100.00
36.	Tech Mahindra Sweden AB	100.00
37.	Comviva Technologies Limited	100.00
38.	Comviva Technologies Nigeria Limited	100.00
39.	Hedonmark (Management Services) Limited	74.99
40.	Comviva Technologies Singapore Pte. Ltd	100.00
41.	Comviva Technologies FZ-LLC	100.00
42.	Comviva Technologies B.V.	100.00
43.	Comviva Technologies (Australia) Pty Ltd	100.00
44.	Emagine International Pty Ltd	100.00
45.	Comviva Technologies Madagascar Sarlu	100.00
46.	Terra Payment Services South Africa (Pty) Ltd	100.00
47.	Terra Payment Services (Netherlands) BV	100.00
48.	Mobex Money Transfer Services Limited	100.00
49.	Terra Payment Services (India) Private Limited	100.00
50.	Comviva Technologies (Argentina) S.A.	100.00
51.	ATS Advanced Technology Solutions do Brasil Industria Comercio, Importacao e Exportacao Ltda	100.00

Serial No.	Name of the Entity	% of holding as on March 31, 2019
52.	Terra Payment Services (Uganda) Limited	100.00
53.	Terra Payment Services (Tanzania) Limited	100.00
54.	Terra Payment Services S.A.R.L (Senegal)	100.00
55.	Comviva Technologies Colombia S.A.S	100.00
56.	Terra Payment Services S.A.R.L (Congo)	100.00
57.	Terra Payment Services Botswana (Proprietary) Limited	100.00
58.	Terra Payment Services (UK) Ltd	100.00
59.	Terra Payment Services S.A.R.L (DRC)	100.00
60.	Terra Payment Services (Mauritius)	100.00
61.	Comviva Technologies Mexico, S de R.L. de C.V	100.00
62.	Sofgen Holdings Limited	100.00
63.	Sofgen SA	100.00
64.	Sofgen Africa Limited	100.00
65.	Sofgen Servives Pte. Ltd.	100.00
66.	Lightbridge Communications Corporation	100.00
67.	Tech Mahindra Network Services Belgium NV	100.00
68.	Tech Mahindra Network Design Services, Inc	100.00
69.	LCC Central America de Mexico, SA de CV	100.00
70.	LCC France SARL	100.00
71.	LCC Telecom GMBH	100.00
72.	LCC Design and Deployment Services Ltd.	100.00
73.	LCC Italia s.r.l.	100.00
74.	LCC Network Services, B.V.	100.00
75.	LCC North Central Europe ,B.V.	100.00
76.	LCC Europe B.V	100.00
77.	LCC Wireless Communications Espana, SA	100.00
78.	LCC Telekomunikasyon Servis Limited	100.00
79.	LCC United Kingdom, Ltd.	100.00
80.	LCC Deployment Services, UK, Ltd.	100.00
81.	LCC Networks Poland Sp.z.o.o	100.00
82.	LCC Wireless Communications Services Marox, SARLAU	100.00
83.	LCC Middle East FZ-LLC	100.00
84.	LCC Saudi Telecom Services, Ltd.	100.00
85.	LCC Muscat LLC	100.00
86.	Lightbridge Communications Corporations LLC	49.00
87.	Servicios Integrales de Telecomunicacionesy Obras Civiles SA	100.00
88.	Leadcom Integrated Solutions (L.I.S.) Ltd.	100.00
89.	Leadcom Integrated Solutions International B.V.	100.00
90.	Leadcom Ghana Limited	100.00
91.	Leadcom Gabon S.A.	100.00
92.	Leadcom Uganda Limited	100.00
93.	Leadcom DRC SPRL	100.00
94.	Leadcom Integrated Solutions Tanzania Ltd.	100.00
95.	Leadcom Integrated Solutions Rwanda Ltd.	100.00
96.	Leadcom Integrated Solutions Tchad SARL	100.00
97.	Leadcom Integrated Solutions (SPV) SAS	100.00
98.	Coniber S.A.	100.00
99.	Tech-Mahindra de Peru S.A.C.	100.00
100.	Tech-Mahindra Guatemala S.A	100.00
101.	Tech-Mahindra Bolivia S.R.L.	100.00
102.	Tech Mahindra S.A.	100.00
103.	Tech-Mahindra Ecuador S.A	100.00
104.	Tech-Mahindra Panama, S.A.	100.00
105.	Tech Mahindra Costa Rica Sociedad Anonima	100.00
106.	Tech Mahindra Colombia S.A.S	100.00

Serial No.	Name of the Entity	% of holding as on March 31, 2019
107.	Leadcom Integrated Solutions Kenya Limited	100.00
108.	Leadcom Integrated Solutions Myanmar Co., Ltd	100.00
109.	PF Holdings B.V.	60.00
110.	Pininfarina S.p.A.	45.71
111.	Pininfarina Extra S.r.l.	45.71
112.	Pininfarina of America Corp.	45.71
113.	Pininfarina Deutschland Holding GmbH	45.71
114.	Pininfarina Deutschland GmbH	45.71
115.	Pininfarina Shanghai Co Ltd	45.71
116.	Tech Mahindra Fintech Holdings Limited	100.00
117.	Target Topco Limited	100.00
118.	Target Group Limited	100.00
119.	Target Servicing Limited	100.00
120.	Target Financial Systems Limited	100.00
121.	Elderbridge Limited	100.00
122.	Harlosh Limited	100.00
123.	Harlosh NZ Limited	100.00
124.	Target TG Investments Limited	100.00
125.	The Bio Agency Limited	100.00
126.	Tech Mahindra Vietnam Company Limited	100.00
127.	CJS Solutions Group, LLC	88.81
128.	The HCI Group UK	88.81
129.	Healthcare Clinical Informatics	88.81
130.	HCI Group DMCC	88.81
131.	HCI Group Australia Pty Ltd	88.81
132.	LCC Saudi Arabia Telecom Services Co. Ltd / Jordan WLL	100.00
133.	Tech Mahindra Holdco Pty Limited	96.00
134.	Pininfarina Engineering Srl	45.71
135.	TC Inter-Informatics a.s.	100.00
136.	Inter-Informatics Spol s.r.o	100.00
137.	K-Vision Co., Ltd	100.00
138.	Tech Mahindra LLC	100.00
139.	Tech Mahindra Chile SpA	100.00
140.	YABX Technologies (Netherlands) BV	100.00
	Associates	
141.	Avion Networks, Inc.	30.00
142.	SARL Djazatech	49.00
143.	Goodmind S.r.l.	20.00
144.	Signature S.r.l.	24.00
145.	AltioStar Networks, Inc.	23.00

Source: TechM's Annual Report FY19

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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