April 05, 2024

Tata Consulting Engineers Limited: Long-term rating upgraded to [ICRA]AA+(Stable); Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based facilities	77.0	77.0	[ICRA]AA+(Stable); upgraded from [ICRA]AA(Stable)
Long-term/Short-term – Non-fund based limits	589.0	589.0	[ICRA]AA+(Stable); upgraded from [ICRA]AA(Stable); [ICRA]A1+; reaffirmed
Long-term/ Short-term – Unallocated	1.0	1.0	[ICRA]AA+(Stable); upgraded from [ICRA]AA(Stable); [ICRA]A1+; reaffirmed
Long-term - Issuer rating	-	-	[ICRA]AA+(Stable); upgraded from [ICRA]AA(Stable)
Total	**667.00**	**667.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade takes into account Tata Consulting Engineers Limited's (TCE) improved scale of operations in the backdrop of healthy revenue growth at a CAGR of 11.9% during FY2019-FY2023, supported by healthy order inflow. The ratings factor in the material reduction in receivable cycle (excluding unbilled revenue[1]) to 93 days as on March 31, 2023 (from 114 days as on March 31, 2022) resulting in improvement in working capital intensity, which is expected to sustain going forward. ICRA notes that the company's working capital intensity has substantially improved to 27% in FY2023 from 47% in FY2019, and it is likely to remain below 30% going forward. TCE's operating income (OI) is estimated to increase in the range of 22%-25% in FY2024 and 24%-27% in FY2025, while sustaining the operating margin and working capital intensity at the current levels.

The ratings continue to factor in TCE's net debt-free status with low leverage (TOL/TNW of 0.5 times), strong liquidity position and healthy order book position providing medium-term revenue visibility. The company added orders worth ~Rs. 3,600 crore during the last two years ending in March 2024 (35% of which were from international markets), leading to estimated closing order book of ~Rs. 2,700 crore as on March 31, 2024, which translates to a comfortable Order Book/Operating Income (OB/OI) ratio of 2.5 times of the estimated OI[2] of FY2024. The ratings factor in TCE's long track record and extensive experience in the consulting industry, along with its continued strong leadership position in the domestic infrastructure consulting space, diversified presence across geographies, business verticals as well as the reputed clientele and robust debt protection metrics. The ratings derive comfort from the strong parentage as a wholly-owned subsidiary of Tata Sons Private Limited (TSPL, rated [ICRA]AAA(Stable)/[ICRA]A1+), which provides financial flexibility. ICRA expects the demonstrated group support in the form of strategic, managerial and funding to TCE to continue going forward.

The rating strengths are offset by the company's relatively moderate scale of operations, working capital-intensive nature of operations with elongated receivable cycle and stiff competition from other established local, multinational and boutique firms, which limits the pricing flexibility. Exposure to Government clients (TCE derives ~35% of its revenue from domestic government clients) and milestone-based billing result in sizeable blockage of funds in working capital cycle. Any material write-offs/provisioning towards the debtors and unbilled revenue could have a bearing on its profitability and remains a key

[1] Unbilled revenue pertains to the amount of work which is done, however, is yet to be billed to the client due to milestone-based nature of contract

[2] Adjusting for opex revenue (plant maintenance/modernisation, preventive maintenance, and other plant asset lifecycle management solutions)

monitorable. While the company generates healthy operating margins, its profitability remains vulnerable owing to intense competition, especially in the domestic market. However, TCE's strong technical expertise and pan-India presence, along with its presence in diverse segments and its relatively higher margin overseas business, have helped to partially counter the pricing pressure arising from the increased competition.

ICRA notes that TCE remains exposed to the risk of adverse movements in exchange rates volatility arising out of revenue from the overseas markets. Nevertheless, it has a hedging policy (~20-25% of the total exposure is hedged) to mitigate the risks arising out of adverse movements in exchange rates to an extent. ICRA expects the liquidity to remain strong with the company likely to maintain liquidity in excess of Rs. 150 crore on a sustained basis, despite annual dividend payout of around 35-40% of its profit and capex plans of Rs. 40-60 crore annually. It has inorganic expansion plans in the medium to long term, which is expected to be funded by a mix of internal accruals and debt. However, ICRA would evaluate the impact of any such investments on the credit profile on a case-by-case basis.

The Stable outlook reflects ICRA's expectation that TCE will continue to sustain healthy growth in revenues, supported by healthy order book position, while maintaining margins and working capital intensity at the current levels, along with comfortable capital structure and debt protection metrics.

Key rating drivers and their description

Credit strengths

Strong parentage being a wholly-owned subsidiary of TSPL; extensive experience and reputed clientele – TCE's strong parentage, as a wholly-owned subsidiary of TSPL, provides exceptional financial flexibility. ICRA expects the demonstrated group support in the form of strategic, managerial and funding to TCE to continue going forward. TCE has a long track record and extensive experience spanning over six decades in providing consulting services across diverse business verticals. TCE enjoys a strong client profile in these business verticals, including reputed names from the public and the private sectors.

Diversified expertise across various sectors and geographies lends stability to order book – The company's revenues are fairly diversified across sectors. Infrastructure sector contributed to the highest share with 32% of revenues in 8M FY2024, followed by the energy sector (25%), mining and metallurgy (21%) and hydrocarbon and chemicals (17%). TCE derives its revenues from projects based across India as well as from overseas clients. Its diversified presence across sectors and geographies lends stability to earnings and cash flows, in case of slowdown in specific geography/region or sector.

Healthy improvement in order book position provides revenue visibility – The company added orders worth ~Rs. 3,600 crore during the last two years ending March 2024 (35% of which was from international markets), leading to estimated closing order book of ~Rs. 2,700 crore as on March 31, 2024, which translates to a comfortable OB/OI ratio of 2.5 times of the estimated OI (adjusting for opex revenue) of FY2024, providing medium-term revenue visibility.

Comfortable capital structure and debt protection metrics – The company's capital structure continues to remain comfortable with TOL/TNW of 0.5 times as on March 31, 2023, given its net debt-free status. Its debt protection metrics remained robust as reflected by the substantially improved interest coverage[3] indicator of 36.8 times in FY2023. ICRA expects TCE to maintain the comfortable capital structure and robust debt protection metrics going forward as well.

Credit challenges

Working capital-intensive operations with high debtor and unbilled revenue – TCE's operations are working capital intensive with sizeable funds blocked in working capital cycle, especially elongated receivable and unbilled revenue. There has been a material reduction in receivable cycle (excluding unbilled revenue) to 93 days as on March 31, 2023 (from 114 days as on March 31, 2022) resulting in improvement in working capital intensity. Notwithstanding the improvement over the past five

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[3] *Includes interest on financial liabilities*

years, the working capital intensity continues to remain high with NWC/OI at 27% (compared to 47% in FY2019 and 33% in FY2022).

Stiff competition in industry and susceptibility to exchange fluctuation risks – TCE is amongst the leading infrastructure consulting firms in India. However, it continues to face intense competition from other established domestic and international firms, which constrains the pricing flexibility. The company's ability to retain critical talent remains crucial for maintaining its competitive position across various business units. TCE remains exposed to the risk of adverse movements in exchange rates and volatility arising out of revenue from the overseas markets. Nevertheless, the company has a hedging policy (~20-25% of the total exposure is hedged), in order to mitigate the risks arising out of adverse movements in exchange rates to an extent.

Vulnerability to macro-economic scenario as capex spends are cyclical in nature, impacting order inflows – The company's revenues are likely to remain dependent (almost 70-75% of revenues) on large capex-driven projects in both overseas and domestic markets. While it is trying to maintain a healthy mix of capex and opex-related orders to bring more stability in its revenue profile, TCE remains susceptible to macro-economic scenario as capex spends are cyclical in nature. Sustained slowdown in order inflow can have a negative bearing on the revenue visibility in the medium term.

Liquidity position: Strong

The company's liquidity position is strong, reflected by healthy free cash flows from operations, free cash and liquid investment of ~Rs. 154.8 crore as on November 30, 2023, and unutilised fund-based working capital limits of Rs. 77.0 crore as on November 30, 2023.

Rating sensitivities

Positive factors – The crystallisation of scenarios for any rating upgrade in the medium term is unlikely. The long-term rating would be upgraded if there is a significant scale up in the company's revenues, along with improved business diversification, while improving its profitability parameters and its liquidity position.

Negative factors – Downward pressure on the ratings could emerge in case of any material decline in revenues and profitability indicators and/or increase in debt levels due to inorganic expansion resulting in significant weakening of key debt protection metrics on a consistent basis. Additionally, deterioration in TCE's working capital cycle leading to an adverse liquidity position could warrant a rating downgrade. Further, any weakening of linkage with the parent company and/or weakening in the credit profile of the parent entity could be a negative trigger. Specific credit metric includes TOL/TNW of greater than 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Company: TSPL holds 100% stake in TCE. ICRA expects TSPL to be willing to extend TCE financial support, should there be a need, given TCE's status as a wholly-owned subsidiary of Tata Sons and out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	The analysis is based on TCE's consolidated financials with its two wholly-owned subsidiaries, Ecofirst Services Limited, and Tata Engineering Consultants Saudi Arabia Company.

About the company

A wholly-owned subsidiary of TSPL, TCE is an engineering consultancy company offering solutions across a wide spectrum of industries. The company was incorporated as Tata-Ebasco Consulting Engineering Services in 1962 to offer engineering design solutions for Tata Power and has since emerged as a multi-disciplinary engineering consulting firm. It is one of the leading Indian engineering consultants having executed numerous projects in India and overseas covering diverse industries. The company has delivery centres at seven locations - Mumbai, Bengaluru, Kolkata, Jamshedpur, Delhi, Chennai and Pune. TCE is working on several projects funded by international funding agencies such as the World Bank, the Asian Development Bank and Japan International Cooperation Agency. TCE's board of directors include senior representatives from other Tata Group companies, with Mr. Ashok Sethi (ex Executive Director of Tata Power Company Limited) as the Chairman of the board.

Key financial indicators (audited)

TCE Consolidated	FY2022	FY2023
Operating income	836.8	1,080.5
PAT	128.3	153.8
OPBDIT/OI	23.0%	20.0%
PAT/OI	15.3%	14.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.2	0.2
Interest coverage (times)	26.9	36.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Nov 30, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	
					April 05, 2024	-	Feb 14, 2023	Dec 30, 2022	Dec 24, 2021	Dec 10, 2021
1	**Fund-based facilities**	Long term	77.0	-	[ICRA]AA+ (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	**Non-fund based limits**	Long term/ Short Term	589.0	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
3	**Unallocated**	Long term/ Short Term	1.0	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+
4	**Issuer rating**	Long Term	-	-	[ICRA]AA+ (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable); Outstanding
5	**Commercial paper programme**	Short term	-	-	-	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based	Simple
Long-term/ Short -term – Non-fund based limits	Very Simple

Long-term/Short-term – Unallocated	NA
Long-term – Issuer rating	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based facilities**	NA	NA	NA	77.0	[ICRA]AA+(Stable)
NA	**Non-fund based Limits**	NA	NA	NA	589.0	[ICRA]AA+(Stable)/ [ICRA]A1+
NA	**Unallocated**	NA	NA	NA	1.0	[ICRA]AA+(Stable)/ [ICRA]A1+
NA	**Issuer rating**	-	-	-	-	[ICRA]AA+(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	TCEL Ownership	Consolidation Approach
Ecofirst Services Limited	100%	Full Consolidation
Tata Engineering Consultants Saudi Arabia	100%	Full Consolidation

Source: Company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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