

Tata Consulting Engineers Limited

Instrument	Amount	Rating Action
	Rs. Crore	
Long-term loans	Rs. 25.0 crore	[ICRA]AA (Stable) re-affirmed
Long-term, fund based limits	Rs. 71.0 crore	[ICRA]AA (Stable) re-affirmed
Non-fund based limits	Rs. 215.0 crore	[ICRA]A1+ / re-affirmed
Issuer Rating	-	IrAA (Stable) / re-affirmed
Short-Term Debt/Commercial Paper	Rs. 20.0 crore	[ICRA]A1+ / re-affirmed

Source: ICRA research

ICRA has re-affirmed the long-term rating of [ICRA]AA (pronounced ICRA double A)¹ to the Rs. 25.0 crore², long-term loans and the Rs. 71.0 crore fund based facilities of Tata Consulting Engineers Limited (TCE). ICRA has also re-affirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 215.0 crore non-fund based facilities of the company. The outlook on the long-term rating is Stable.

ICRA has re-affirmed the issuer rating of IrAA (pronounced Ir double A) to the company. The outlook on the issuer rating continues to remain 'Stable'.

ICRA has also re-affirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs. 20.0 crore Short-Term Debt/Commercial Paper programme of TCE.

The rating re-affirmations take into account TCE's well diversified presence spanning over six decades in providing engineering consultancy services across various sectors such as power, infrastructure, chemical, steel and metal, nuclear and construction supervision, resulting in steady order book position and lending visibility to future revenue receipts. The company's financial profile remains comfortable as reflected in comfortable profitability indicators and strong capital structure (0.24 times as on September 30, 2016). The ratings continue to reflect the strong parentage of TCE by virtue of being a wholly owned subsidiary of Tata Sons Limited (rated [ICRA]AAA, Stable, [ICRA]A1+), thus providing sufficient financial flexibility. The ratings also factor in the company's strong client profile, which includes reputed public sector companies, funding agencies, and private sector companies. ICRA also takes note of the company's concerted efforts in diversifying revenues across geographies and the strong growth and growing share of the company's international business unit. In addition, to reduce the revenue volatility associated with its involvement in large capex projects that are vulnerable to macro-economic and political factors, as witnessed in the past five years—the company has started providing dedicated engineering services for large multi-nationals for their projects across the globe through exclusive delivery centres.

Nevertheless, the slowdown in domestic economic activity and policy issues, particularly in the power segment, impacted overall revenue growth and order book generation during FY2016. Economic slowdown in China and declining commodity prices, especially oil, impacted large capital investment projects that did not materialise or were put on hold, impacting overseas revenue growth. The above factors led to sharp decline in profitability during FY2016 as the higher wage costs—partly attributed to increased hiring—remain unabsorbed. Nevertheless, better execution, especially in the overseas segment for the construction supervision division, supported revenue growth, and consequently profitability during H1 FY2017. The company's working capital intensity, reflected in sharp increase in unbilled revenues and high debtors, remains elevated as on March 31, 2016, accentuated by the economic slowdown. Additionally, TCE continues to face intense competition in the domestic markets from established local, multi-national and boutique firms. However, TCE's strong technical expertise, pan-India presence along with its presence in niche segments, and its relatively higher margin overseas business have helped counter pricing pressures arising as a result of increased competition. TCE has been able to leverage the Tata Group's association as well as its knowledge base to acquire key projects internationally, notably in African and West Asian markets.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² Rs. 100 lakh = Rs. 1 crore = Rs. 10 million

Going forward, improvement in the macro-economic scenario will be key to kick-starting the capex cycle to sustain its order book position, support project execution, and consequently generate revenue growth to maintain profitability. Additionally, the ability of the company to reduce working capital intensity by improving its collection cycle and lowering unbilled revenues will be crucial for alleviating liquidity pressures and sustaining its credit profile.

Company Profile

A wholly owned subsidiary of Tata Sons Limited, 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. TCE is one of the leading Indian engineering consultants, having executed numerous projects in India and overseas covering diverse industries. Its quality management system has been certified as ISO 9001:2000 by Lloyd's Register of Quality Assurance. TCE is registered with the International Bank for Reconstruction and Development (World Bank) as well as the Asian Development Bank (ADB).

Recent results:

For the 12 months ending March 31, 2016, TCE reported a profit after tax (PAT) of Rs. 4.6 crore on an operating income (OI) of Rs. 502.4 crore, as compared to a PAT of Rs. 50.5 crore on an OI of Rs. 539.2 crore for the 12 months ending March 31, 2015. For H1 FY2017, TCE reported a PAT of Rs. 17.1 crore on an OI of Rs. 273.2 crore.

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