ICRA

February 02, 2017

Tata Business Support Services Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Long term: Fund based limits	43.00 (revised from Rs. 20 crore)	[ICRA]A+(Stable) reaffirmed
Short term: Non-fund based limits	35.00	[ICRA]A1+ reaffirmed
Commercial Paper Programme	50.00	[ICRA]A1+ reaffirmed

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]A+ (pronounced as ICRA A Plus)[1] assigned to Rs. 43.0 crore[2] (revised from Rs. 20 crore) cash credit facilities and the short term rating of [ICRA]A1+ assigned to the Rs.35.0 crore non-fund based limits of Tata Business Support Services Limited (TBSS or 'the company') .The outlook on the long term rating is stable. ICRA has also reaffirmed the rating of [ICRA]A1+ to Rs. 50 crore commercial paper programme of TBSS.

Rationale

The reaffirmation of ratings continues to factor in the stable operational and financial performance of TBSS during FY2016 and the strong parentage of the company with Tata Sons Limited(rated [ICRA]AAA(Stable)) and Tata Capital Limited(rated [ICRA]AA+(Stable)/[ICRA]A1+) holding a stake of 95.5% and 4.5% respectively in the company. The ratings continue to take into consideration the diversified operations of company with presence in front end client management services as well as mid/back office and collections business; with a wide presence in over 200 locations across India. The ratings, further, positively factor in the favourable debt-risk profile of the company with low gearing and healthy debt coverage indicators; as well as strong liquidity profile. While the margins of the company have moderated post merger of E- Nxt Financials Limited with TBSS since FY 2015, the company expects an improvement in profitability over the medium term supported by additional business from the international market.

The ratings,however, remain constrained by the moderate operating margins of the company due to higher focus on domestic clients; coupled with relatively high employee costs. In addition, the ratings remain tempered by the high customer concentration risk with Tata group companies contributing to over ~55-60% of the overall business of the company, mitigated to a certain extent by diversification of client base by the company over the years. The ratings also remain constrained by the company's exposure to other risks that are typical of the ITES-BPO sector such as wage inflation, high attrition and low utilization rates. ICRA also takes note of risk pertaining to built up of net payables of TBSS in the last two years, mitigated to a large extent by the company's strong liquidity position, should an obligation arise in the near term.

Going forward, the ability of the company to achieve healthy revenue growth and profitability levels, while effectively managing its working capital requirements remains the key rating sensitivity from a credit perspective.

Key rating drivers

Credit Strengths

- Strong parentage of the company with 95.5% stake being held by Tata Sons Limited (rated AAA/Stable by ICRA) and remaining 4.5% held by Tata Capital Limited([ICRA]AA+ (Stable)/A1+)
- Diversified operations with presence in front end client management services as well as mid-back office and collections business; Wide foot print with presence in over 200 locations across India
- Growing customer base with acquisition of new clients coupled with long standing relationship with existing clients leading to recurring revenues
- Favourable debt-risk profile with low gearing and strong debt coverage indicators

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

[2] 100 lakh = 1 crore = 10 million

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- Strong and experienced management with adequate representation of senior management from Tata group in the board of directors
- Technical expertise and management capability of the Tata Group ensures optimum capacity utilization and sustained profitability

Credit Weakness

- Customer concentration risk with significant revenue contribution from Tata group companies across business divisions; however, the same has reduced gradually over the years from ~70% in FY 2011 to ~55% in the current fiscal due to efforts made towards diversification of client base in BPO division
- Reduction in operating margins in the ongoing FY2017 due to investment in additional manpower in the USA branch which is yet to contribute significantly to the company's revenue
- Relatively lower margins of the company compared to other BPO players due to low focus on the international market; however, the margins are higher than other BPO players focusing on the domestic market
- Exposure to continual wage increase and attrition rates which are typical within the ITES-BPO industry segment

Description of key rating drivers highlighted above:

TBSS has two major business divisions namely [a] Contact Centre business process services under which the company provides voice and non-voice based business process services including inbound and outbound interactions, email interactions, chat and collaborative web sessions to its clients. It mainly caters to clients in Telecom, Media, Manufacturing, Retail and E-Commerce etc. About 55% of the revenues in this segment are derived from Tata group entities such as Tata Sky Limited, Tata Motors Limited etc., and [b] Field recovery services and business process management division: Under this division, the company provides end-to-end services to its clients - partnering with them in providing solutions for their business needs. The key industry verticals targeted by this division are - BFSI (Banking, Financial Services, and Insurance), Retail, Telecom, Hospitality, Automobiles and Manufacturing.This division became a part of TBSS post merger of erstwhile E Nxt Financials Limited, another Tata group concern. About 60-70% of the revenues in this division are derived from the Tata group companies.

While the margins from the pure BPO business are in the range of 12-15%, the field recovery division, which contributes to about ~25% of the business is a lower margin yielding segment, due to which the overall margins of the company reduced post merger of ENFL with TBSS. Further, given that TBSS largely focuses on domestic clients for its BPO business, the margins remain moderate as against the same from international segment. The company expects improvement in profitability in the medium term driven by increase in number of overseas clients. Within the domestic segment, the company has acquired several new clients such as Airtel Prepaid, Vijaya Diagnostic Centre, Ministry of Tourism etc., which are expected to drive revenue growth going forward.

The company remains exposed to risks which are typical to the ITES-BPO industry, such as high employee attrition rates as well as risk of lower utilization of employees. However, TBSS has been able to reduce the overall attrition rate over the years by setting up additional centres in tier-2 towns/cities and providing employment to secondary earners within families. Further, minimum payment contracts protect the margins of the company in case of lower than expected utilization in a given contract.

While the company has witnessed a built up of payables in the last two years, the net payable position is moderate. Further, the company's liquidity position is comfortable, aided by healthy operational cash flows as well as receipt of income tax refund during the year. Going forward, ability of the company to effectively manage its working capital requirements remains a key sensitivity from a credit perspective.

Analytical approach:
For arriving at the ratings, ICRA has taken note of the operational & financial performance of TBSS along with the strong parentage of the company and the implicit support from Tata Sons Limited.

Links to applicable Criteria
Corporate Credit Ratings: A Note on Methodology

About the Company:

Tata Business Support Services Limited was incorporated in 2003-04 as a wholly owned subsidiary of Tata Sons Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+ by ICRA) to cater to the domestic ITES-BPO industry. The company commenced its operations in 2004-05 as 'E2E Serwiz Solutions Private Limited' and rechristened itself to 'Tata Business Support Services Limited' in 2007-08. The company provides voice-based business process services including inbound and outbound interactions, email interactions, chat and collaborative web sessions and caters mainly to clients in Telecom, Media, Manufacturing, Retail, E-Commerce and Healthcare etc. With effect from April 1, 2014, the operations of E Nxt Financials Limited (a Tata group enterprise which is into the business of collections and business process management,earlier rated at [ICRA]A1, withdrawn in January 2016) have been merged with TBSS as per court order received in May 2015.

Status of non-cooperation with previous CRA: Not Applicable. If Applicable then the relevant information should be captured under this section

Any other information: Not Applicable**.** Applicable if there is additional information, over and above the standard information captured in this PR that requires a mention.

Rating History for last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month - year & rating FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2015
				Feb 2017	Jan-16	Jan-15	Apr-14
1	Cash Credit	Long term	43.00				[ICRA]A+(Stable)
2	Non-fund based	Short Term	35.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Commercial Paper Programme	Short Term	50.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based - cash credit	-	-	-	43.00	[ICRA]A+(Stable)
Non-fund based	-	-	-	35.00	[ICRA]A1+
Commercial Paper	January 27, 2017	6.49%	March 31, 2016	15.00*	[ICRA]A1+

Source: TBSS;Total rated amount of Rs. 50 crore of which Rs. 15 crore issue was done in January 2017

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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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