

December 18, 2017

Tata Business Support Services Limited

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	43.00	43.00	[ICRA]A+ Reaffirmed; rating removed from rating watch with developing implications and 'Stable' outlook assigned
Fund-based/Non-fund Based Limits		35.00	[ICRA]A+/[ICRA]A1+ reaffirmed; ratings removed from rating watch with developing implications and 'Stable' outlook assigned
Long-term/Short-term Non-fund Based Limits	35.00	17.00	[ICRA]A+/[ICRA]A1+ reaffirmed; ratings removed from rating watch with developing implications and 'Stable' outlook assigned
Total	78.00	95.00	
Commercial Paper Programme**	50.00	50.00	[ICRA]A1+ reaffirmed; rating removed from rating watch with developing implications

*Instrument details are provided in Annexure-1

**Commercial paper carved out of existing working capital limits

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced as ICRA A plus) and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to Rs. 35.0-crore fund-based/non-fund based working capital facilities and Rs.17.00-crore long-term/short-term non-fund based working capital facilities; and the rating of [ICRA]A+ to Rs. 43-crore fund-based facilities of Tata Business Support Services Limited (TBSS or 'the company'). ICRA has also reaffirmed the rating of [ICRA]A1+ assigned to Rs. 50 crore commercial paper programme of TBSS. The rating watch with developing implications has been removed and 'Stable' outlook has been assigned to the long-term rating.

Rationale

The ratings reaffirmation factors in the acquisition of 51% stake in TBSS by Qess Corp Limited (QCL, rated [ICRA]AA-(Stable)/[ICRA]A1+) from Tata Sons Limited (TSL, rated [ICRA]AAA(Stable)/[ICRA]A1+). While ICRA notes that the company will undergo a rebranding exercise and will align its services as per QCL's growth strategy, the acquisition is expected to be beneficial to TBSS given the operational synergies with QCL and is likely to open up cross-selling opportunities of its services to QCL's clients going forward. ICRA further notes that TBSS's growth in the near to medium term will remain contingent on its ability to retain the existing client portfolio from the Tata group of companies given that it contributed to 60-65% of the company's revenues in the last two years. Nonetheless, the understanding between Tata group and QCL as per which the Tata group of companies will continue to outsource their service requirements to TBSS for a minimum period of three years provides comfort, which in turn mitigates the risk of client attrition from Tata group to a certain extent. Given that Tata group intends to divest its remaining 49% stake in TBSS gradually after

November 2020, the company's ability to diversify its client base in the long run also remains important from a credit perspective.

The ratings further continue to factor in the diversified operational profile of the company with presence in customer life cycle management and business process management services offered to varied client segments such as Media, Telecom, BFSI etc; with a wide presence in over 200 locations across India. In addition, the ratings take into consideration the strong financial risk profile of the company characterised by low gearing and healthy debt coverage indicators.

The ratings, however, remain constrained by the moderate operating margins of TBSS given that over 90% of its revenues in the voice based services are derived from the lower margin yielding domestic segment, coupled with thin margins from the cash collections division. ICRA further notes that the profitability of the company during H1 FY2018 was impacted by subdued revenue in-flow as against costs incurred with respect to new client accounts (in the voice based services segment) which are currently under transition. In addition, the ratings remain tempered by the high customer concentration risk with Tata group companies contributing to over ~60-65% of the overall business of the company, mitigated to a certain extent by the expected diversification of client base due to synergy in operations with QCL going forward. The ratings further 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 build 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.

Outlook: Stable

ICRA believes TBSS will benefit from association with QCL given the operational synergies. Furthermore, it is likely to continue to receive support from the Tata group in the form of assured contracts for the next three-year period. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if revenue in-flow from the Tata group remains lower than expected, which would in turn significantly affect TBSS's overall performance going forward.

Key rating drivers

Credit strengths

- **Operational synergies with QCL expected to drive revenue growth** – QCL's acquisition of majority stake in TBSS intends to bridge the strategic gap in QCL's service offerings. The group proposes to cross-sell TBSS's service offerings, especially in the customer life cycle management segment, to existing clients in QCL's People and Services(P&S) and Global Technology Solutions(GTS) segments. This is expected to result in incremental opportunities for TBSS to diversify its client base and drive revenue growth
- **Continued support from the Tata Group for the next three-year period** – While TBSS is expected to be re-branded and will cease to associate with the Tata brand going forward, an understanding between QCL and Tata group is likely to entail continued support from the latter in terms of assured service contracts for the next three-year period
- **Diversified operational profile and sectoral exposure** – TBSS, through its voice based business process services and collection and business process management divisions offers both front-office and mid-back/office services to customers in diverse sectors such as Media, Telecom, Banking and Financial Services, Auto, etc,

- **Strong financial risk profile characterized by low gearing and robust coverage indicators** – TBSS's financial risk profile remains strong with a healthy capital structure characterised by gearing of 0.27 times and robust coverage indicators as on September 30, 2017

Credit weaknesses

- **High client concentration risk with preponderance of Tata group companies in the client portfolio** – Tata group companies namely Tata Sky Limited, Tata Motors Limited, Tata Capital Finance Limited, Tata Housing Limited, Tata Motors Finance Limited are some of the major clients of TBSS and the group cumulatively contributed to 60-65% of the company's revenues in the last two years exposing it to high client concentration risk. Furthermore, with TSL now being a minority stake holder, continued support from the Tata group remains crucial for TBSS's growth in the near to medium term
- **Reducing trend in operating margins in the last three years** – TBSS's margins remained moderate over the years given that it derives around 90% of its revenues from the domestic clients in its voice based services segment. Also, the cash collections segment which contributed to around 20% of the company's revenues in FY2017 is a lower margin yielding segment. Furthermore, the operating margins of the company witnessed moderation during H1 FY2018 as some of the new accounts acquired in the voice based business are currently under transition with employees under training period. Hence, the revenue-inflow was not commensurate to the cost incurred
- **Risks pertaining to IT-BPO operations** – Exposure to continual wage increase and attrition rates affects the profitability of the company as employee costs constitutes the key costs for the company's business

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

About the company

Tata Business Support Services Limited was incorporated in 2004 as a wholly owned subsidiary of Tata Sons Limited 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.

In November 2017, 51% stake in TBSS was taken over by Qess Corp Limited which is engaged in offering end-to-end business functions like recruitment, temporary staffing, technology staffing, IT products and solutions, skill development, payroll, compliance management, integrated facility management and industrial asset management services to corporate companies operating across sectors.

In FY2017, the company reported a net profit of Rs. 23.67 crore on an operating income of Rs. 672.74 crore, as compared to a net profit of Rs. 21.25 crore on an operating income of Rs. 627.93 crore in the previous year.

Key financial indicators

	FY2016	FY2017	FY2018(Provisional)
Operating Income (Rs. crore)	627.93	672.74	353.93
PAT (Rs. crore)	21.25	23.67	9.43*
OPBDIT/ OI (%)	8.86%	8.30%	4.91%
RoCE (%)	18.20%	21.12%	10.37%
Total Debt/TNW (times)	0.46	0.16	0.27
Total Debt/OPBDIT (times)	1.15	0.47	1.28
Interest Coverage (times)	6.51	12.24	6.38
NWC/OI (%)	17%	13%	16%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

*NWC: Net Working Capital; *Depicts Profit Before Tax*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month- year & Rating in FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016
				December 2017	November 2017	February 2017	February 2016
1	Fund-based Limits	Long Term	43.00	[ICRA]A+ (Stable)	[ICRA]A+ Placed on watch with developing implications	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund-based/Non-fund Based Limits	Long Term/ Short Term	35.00	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+ Placed on watch with developing implications	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
3	Non-fund Based Limits	Long Term/ Short Term	17.00	[ICRA]A+ (Stable)/ [ICRA]A1+			
4	Commercial Paper Programme	Short Term	50.00	[ICRA]A1+	[ICRA]A1+ Placed on watch with developing implications	[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
Instrument Details

Instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	43.00	[ICRA]A+(Stable)
Fund-based/Non-fund based facilities	-	-	-	35.00	[ICRA]A+(Stable)/ [ICRA]A1+
Long-term/Short-term Non-fund based Limits	-	-	-	17.00	[ICRA]A+(Stable)/ [ICRA]A1+
Commercial Paper Programme*	-	-	-	50.00	[ICRA]A1+

Source: TBSS

*Commerical paper yet to be issued

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