February 02, 2021

Tata Elxsi Limited: Ratings reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund Based - Working Capital Facilities	45.00	45.00	[ICRA]AA (Stable); Reaffirmed and withdrawn
Short term – Non-fund Based Working Capital Facilities	10.00	10.00	[ICRA]A1+; Reaffirmed and withdrawn
Total	**55.00**	**55.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings are withdrawn at the request of the company and on the basis of the receipt of no objection certificates from the bankers, in accordance with ICRA's policy on withdrawal and suspension of rating of bank facilities.

The reaffirmation of the ratings considers the long-standing presence of Tata Elxsi Limited (TEL/the company) in the designing and development of systems and software for varied end-user industries, its strong business profile supported by a diversified geographical presence, its reputed clientele, and experienced and professional management team. The ratings remain underpinned by TEL's strong financial risk profile marked by stable revenues, healthy profit margins, sizeable net worth, strong cashflows and debt-free status.

In FY2020, TEL's revenue growth was almost flat (up 0.8% YoY) due to the slowdown in global automotive demand, which resulted in subdued research and development (R&D) spend by the original equipment manufacturers (OEMs). In 9M FY2021, TEL posted Rs. 1,307.8 crore of revenues (up 11.7% YoY) aided by healthy growth seen in Broadcast & Communications and Medical Devices verticals. Its operating profit margin (OPM) contracted by 470 bps to 21.7% in FY2020 owing to a sharp rise in employee costs. However, in 9M FY2021, OPM expanded by 710 bps to 27.1% aided by increase in scale of operations, lower discretionary costs and relatively lower employee costs due to offshore shift. Further, the company's financial profile is strong, characterised by a strong net worth position, healthy cash reserves and a debt-free status.

The ratings also consider the moderate customer concentration with the top five clients accounting for 35.4% of the revenues in Q3 FY2021 and the vulnerability of the company's earnings to end-user demand and protectionist policies in some of the regions where it operates. The ratings have also taken into account the exchange rate fluctuations and intense competition in the industry, characterised by the presence of large players that offer managed services.

Key rating drivers and their description

Credit strengths

Long-standing presence in designing and development of systems and software for varied end-user industries – TEL has an established presence in the designing and development of systems and software for varied end-user industries (transportation, broadcasting, communication, healthcare, consumer electronics, semiconductors, etc). Its major verticals have a huge growth opportunity considering the increase in R&D spends in the automotive, consumer electronics, and medical devices segments. As TEL is a specialist vendor for the top OEMs and Tier-I suppliers, the recent reallocation of R&D budgets towards electronics and software, which is a large addressable market, and its differentiated product offerings increase the growth opportunities for the company.

Strong business profile supported by diversified geographical presence, reputed clientele and professional management team – The company's business profile is strong, aided by a diversified geographical presence across Europe, the US, India, Japan, the Far East, etc, its reputed clientele, and professional management team. TEL is uniquely positioned among its peers and offers relatively complex services supported by its expertise, execution capabilities and long-standing relationships with its clients. This not only strengthens its value proposition, it also helps in generating higher margins.

Robust financial profile with stable earnings, debt-free status and strong cash reserves – TEL's financial profile is robust with stable revenues of Rs. 1,609.9 crore in FY2020 and healthy margins (OPM of 21.7% and net profit margin (NPM) of 15.9% in FY2020). In 9M FY2021, TEL's revenues was Rs. 1,307.8 crore while OPM was 27.1% and NPM was 19.3%. The financial profile is also supported by TEL's sizeable net worth of Rs. 1,134.1 crore as on September 30, 2020, strong cashflows, and debt-free status (excluding lease liabilities). The company's liquidity position is strong with a cash balance of Rs. 739.4 crore as on September 30, 2020. TEL's debt indicators are expected to remain comfortable going forward, in the absence of any large debt-funded capital expenditure.

Credit challenges

Increasing competition leads to pricing pressure – The industry is characterised by intense competition from players enjoying the benefits of scale and higher bargaining power. Nevertheless, TEL is well placed in terms of niche service offerings, multi-disciplinary designing capabilities and an established presence. Given the Covid-19 pandemic, ICRA expects a contraction in the OEMs' spend towards R&D, which would increase the competitive intensity in the business and lead to pricing pressure.

Moderate customer concentration – In FY2020, the share of the top five customers was 38.5% of the overall revenues (35.4% in Q3 FY2021), reflecting moderate customer concentration. This apart, the transportation vertical, which has been the major contributor to TEL's revenues, witnessed a degrowth owing to the ongoing slowdown in the global automotive sector coupled with the impact of the pandemic. However, the company's other segments like broadcast & communication and healthcare & medical devices have been growing at a healthy rate with the former supported by the increased usage of over-the-top (OTT) platforms and telecom services (given the work-from-home situation across the globe).

Vulnerability of earnings to demand in end-user industries and foreign exchange fluctuations – With exports contributing 87% to its revenues, TEL is susceptible to exchange rate fluctuations. Nevertheless, the same is mitigated to some extent by an active hedging mechanism. The earnings are also susceptible to protectionist policies in a few key geographies and wage inflation.

Liquidity position: Strong

TEL's liquidity position is strong with a cash balance of Rs. 739.4 crore as on September 30, 2020. Despite regular dividend payouts, the company's liquidity position has remained strong on the back of healthy operating cashflows, which are expected to continue in future as well. TEL remains debt free and has relatively low capex costs, mostly for maintenance.

Rating sensitivities: Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (IT) Services Industry Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

Incorporated in 1989, Tata Elxsi Limited predominantly designs and develops systems and software for industry verticals such as automotive, aerospace, broadcast, communication, consumer electronics and semiconductors. It also provides systems integration and industrial design services across industries. The larger business segment – Software Development & Services - can be further categorised into the Embedded Product Design (EPD) and Industrial Design & Visualisation (IDV) divisions. While the EPD division provides hardware, software and embedded system designs and development services across the product lifecycle, the IDV division addresses the industrial design, user experience and service design, branding and digital content marketing requirements of customers. TEL, headquartered in Bangalore, has a presence across the US, Europe, Asia Pacific and Japan. In India, the company has global development centres and studios in cities like Bangalore, Thiruvananthapuram, Mumbai and Pune.

Key financial indicators (audited)

Tata Elxsi Limited (standalone)	FY2019	FY2020
Operating Income (Rs. crore)	1,596.9	1,609.9
PAT (Rs. crore)	290.0	256.1
OPBDIT/OI (%)	26.4%	21.7%
RoCE (%)	51.8%	34.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	406.3#	51.3*
DSCR (times)	304.4	45.1*

*Source: Company financials; Note: #Bank charges classified as finance costs * Unadjusted for Ind AS 116 (lease liabilities); 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); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2020 (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 02, 2021	Sep 30, 2020	-	Mar 25, 2019	Mar 26, 2018
1	Fund Based	Long Term	45.00	--	[ICRA]AA (Stable) Reaffirmed and Withdrawn	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-fund Based	Short Term	10.00	--	[ICRA]A1+ Reaffirmed and Withdrawn	[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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based Facilities	NA	NA	-	45.00	[ICRA]AA (Stable); Reaffirmed and Withdrawn
NA	Non-fund Based Facilities	NA	NA	-	10.00	[ICRA]A1+; Reaffirmed and Withdrawn

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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.

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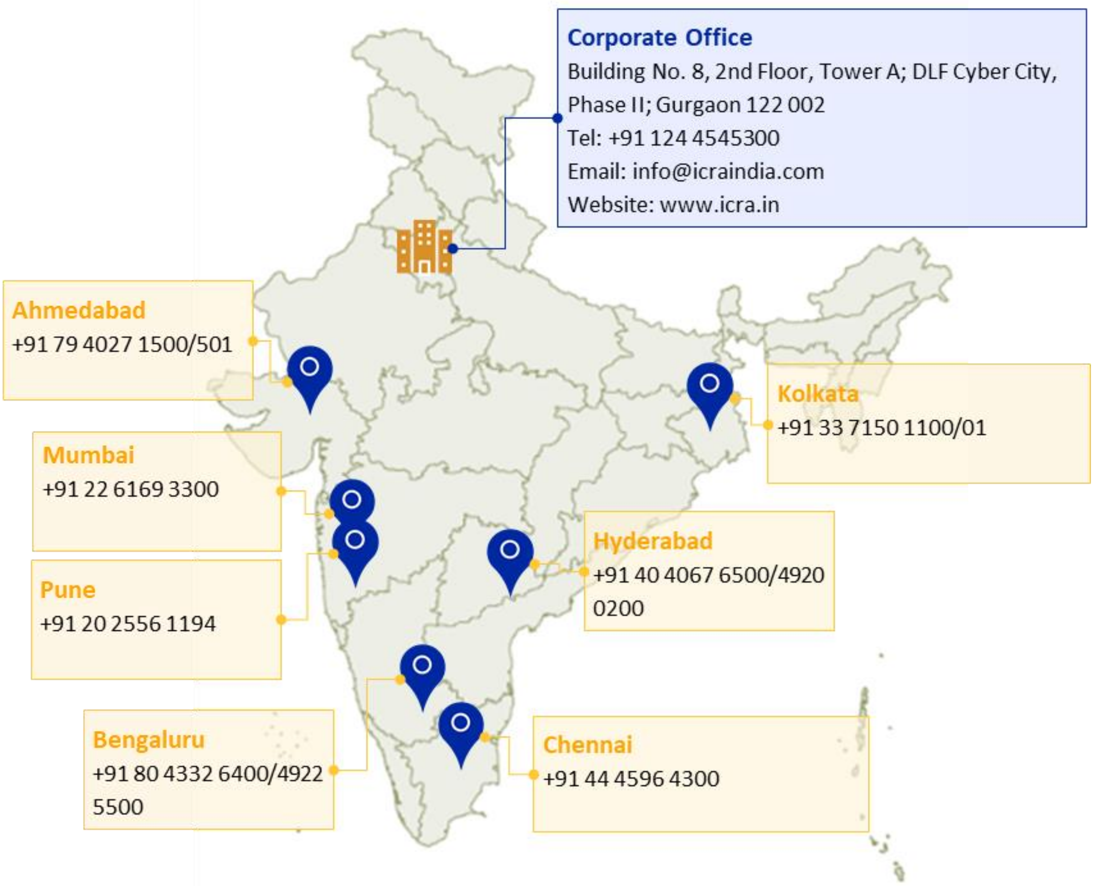

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