April 10, 2017

Tata Elxsi Limited

Instruments	Amounts	Rating action
	(Rs. crore[1])	
Fund based facilities	45.00	[ICRA]AA (Stable) / Reaffirmed
Non-fund based facilities	10.00	[ICRA]A1+ / Reaffirmed

** Instrument details are provided in Annexure I*

Rating Action

ICRA has reaffirmed the long term rating outstanding on the Rs.45.00 crore fund based facilities of Tata Elxsi Limited (TEL / the company) at [ICRA]AA (pronounced ICRA double A)[2]. The outlook on the long term rating is Stable. ICRA has also reaffirmed the short term rating outstanding on the Rs.10.00 crore non-fund based facilities of TEL at [ICRA]A1+ (pronounced ICRA A one plus).

Rationale

The reaffirmation of the ratings takes into account TEL's sustained business growth momentum and its comfortable financial profile characterized by strong annual cash accruals, comfortable capital structure and sound liquidity profile. During FY2016 and 9M FY2017, the company reported expansion in operating margins to 23.5% and 24.0% respectively from 21.1% in FY2015 supported by higher employee utilization, improved service mix and cost rationalization measures. The company's liquidity profile also remained strong as reflected by healthy cash and liquid investment balance of Rs.189.7 crore (as on September 30, 2016) and un-utilized bank lines. ICRA expects TEL's established relationships with its key customers, its multi-disciplinary designing capabilities and an overall long term positive outlook for the engineering services outsourcing from India to support continued strong performance by the company. Furthermore, given that the company has not outlined any large debt-funded capital expenditure, ICRA expects its overall credit profile to remain comfortable going forward.

The ratings continue to factor TEL's strong parentage with Tata Sons Limited (rated [ICRA]AAA / Stable / [ICRA]A1+) holding 44.6% stake in TEL and its experienced and professional management team. The ratings also take into account TEL's strengthening presence in the global engineering services outsourcing industry and healthy traction being witnessed under its automotive and broadcast verticals which are expected to aid the company in sustaining its growth momentum. The company's business profile remains reasonably diversified across business segments, industry domains, geographies and reputed customer base. The aforesaid rating strengths are partially offset by high competitive pressures in the industry, wage inflation, pricing pressure and the vulnerability of the company's revenues and margins to adverse movements in foreign exchange rates. ICRA also takes note of the limited revenue visibility given the relatively short term nature of most of TEL's projects and risks arising from protectionist policies being adopted in some of its key target geographies. Going forward, the company's ability to scale up its business, sustain its margins and maintain a comfortable capital structure would remain key rating sensitivities. In line with its strategy to enhance the scale of operations, the company is exploring opportunities for acquisition. However, ICRA expects TEL to finance its inorganic investments in a manner that protects its credit profile given its conservative capital structure policy.

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[1] *100 lakhs = 1 crore = 10 millions*

[2] *For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications*

Key Rating Drivers

Credit Strengths

- Operations reasonably diversified across embedded product design, industrial design, visual effects and systems integration, with a strong presence in niche segments.
- Established relationships with customers and strong support from group companies.
- Revenue stream diversified across geographies lending stability.
- Strong financial profile characterized by nil gearing and healthy cash accruals.
- Experienced and professional management and financial flexibility arising from being part of the Tata Group.

Credit Weakness

- Moderate revenue visibility on account of high proportion of project based revenue which is of short duration.
- Increasing competitive pressures from companies in India as well in other low cost countries.
- Vulnerability to protectionist policies being adopted by some of the key target geographies; mitigated to some extent by reasonably diversified geographic presence.
- Earnings exposed to foreign currency fluctuations; however, active hedging mechanism mitigate the same to an extent.

Description of key rating drivers highlighted above:

The larger business segment - SDS - can be further categorized into Embedded Product Design (EPD) and Industrial Design & Visualisation (IDV) divisions. While the EPD division provides hardware, software and embedded system design and development services across the product lifecycle, the IDV division addresses industrial design, User experience and service design, branding and digital content marketing requirements of customers. With the merger of erstwhile Visual Computing Labs (VCL) division with ID during the previous fiscal, the company offers digital content creation including 3D computer graphics, animation and special effects for corporate films and entertainment industry under IDV.

Over the years, while the company has witnessed broad based growth across divisions, stronger growth under EPD division has resulted in increased revenue share of the segment. During the period FY2012 to FY2016, the company’s EPD division has reported a strong CAGR of 23.4% - thereby increasing the share of its revenues to 80.6% in FY2016, from 69.3% in FY2012. However, within the larger EPD division, the company’s revenues remain fairly diversified across industry domains – automotive, broadcasting, communication and medical electronics. The company’s customer profile includes global majors such as Jaguar-Land Rover (JLR), Comcast, Time Warner Cable, Tata Motors, Broadcom and Qualcom among others. TEL’s largest customer – JLR accounts for about 20-22% of its revenues while its top five customers generate about 50% of its revenues thereby indicating moderate customer concentration. However, the company enjoys long term associations with most of its customers which lends stability to its revenues – especially in the face of short term nature of its projects thereby restricting revenue visibility. The company’s revenues are reasonably diversified across Europe, India, USA and Japan & Far East. With the enhanced focus on Japan market and addition of some new customers including establishment of a new off-shore development centre (with Panasonic), ICRA expects TEL’s geographic mix to improve as the revenues from Japan scale up thereby reducing dependence on US and Europe to some extent.

TEL’s financial profile remains strong characterized by robust annual cash accruals, comfortable capital structure and sound liquidity profile. By virtue of moderate working capital intensity and relatively low capital expenditure requirements, the company’s debt levels over the last few years have remained low and TEL has remained debt free over the last four years. Accordingly, the company’s gearing stood at 0.0x as on March 31, 2016 and September 30, 2016. Further, TEL’s coverage metrics have strengthened further during the last two years supported by lower finance charges and improved operating profits.

Analytical approach: In arriving at the ratings, ICRA has considered the standalone business and financial profile of Tata Elxsi Limited.

Links to applicable Criteria:
Corporate Credit Rating –A Note on Methodology
http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf

About the Company
Incorporated in 1989, Tata Elxsi Limited is predominantly into design & development of systems and software for industry verticals such as automotive, aerospace, broadcast, communication, consumer electronics and semiconductors. The company also provides systems integration and industrial design services across industries.

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Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2013
				April 2017	Oct 2015	Jun 2014	Feb 2013
1	Fund-based	LT	45.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-fund-based	ST	10.00	[ICRA]A1+	[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 Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based facilities	-	-	-	45.00	[ICRA]AA (Stable)
Non-fund based facilities	-	-	-	10.00	[ICRA]A1+

Source: Tata Elxsi Limited

Name and Contact Details of the Rating Analyst(s):

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Swathi Hebbar
+91 80 4332 6404
swathi.hebbar@icraindia.com

Pavethra Ponniah
+91 44 4596 4304
Pavethrap@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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.
For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	