



Tata Elxsi Limited

Instruments	Amounts	Rating Action
	(Rs. Crore)	September 2015
Fund based facilities	45.00	[ICRA]AA (Stable) / Revised from [ICRA]AA- (Stable)
Non-fund based facilities	10.00	[ICRA]A1+ / Reaffirmed

ICRA has revised the long-term rating outstanding on the Rs.45.00 crore fund based facilities of Tata Elxsi Limited (“TEL” / “the Company”) from [ICRA]AA- (pronounced as ICRA double A minus)[†] to [ICRA]AA (pronounced as ICRA double A). The outlook on the long term rating is stable. ICRA has also reaffirmed the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs.10.0 crore non-fund based facilities of the Company.

The long term rating upgrade takes into account sustained improvement in TEL’s financial profile characterized by healthy margin expansion over the years, strong return indicators, sound debt protection metrics and robust cash accruals. During 2014-15, TEL reported operating margins of 21.1%, up from 17.8% in 2013-14 and 11.8% in 2012-13, mainly supported by efficiency gains and cost rationalization measures undertaken by the Company over the last few years. Further, while TEL’s return on capital employed expanded to a robust 61.3% during 2014-15 its liquidity profile remained strong as reflected by healthy cash and liquid investment balance of Rs.133.3 crore and un-utilized bank lines. 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 going forward.

The ratings continue to factor strong parentage of TEL with Tata Sons Limited (*rated [ICRA]AAA / Stable / [ICRA]A1+*) holding ~45% stake in TEL and its experienced and professional management team. The Company’s business profile remains reasonably diversified across business segments, geographies and reputed customer base which are expected to continue to support its business growth going forward. The ratings also take into account 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 weak performance under its visual computing labs division and limited revenue visibility given relatively short term nature of the projects. These risks are however mitigated to some extent by TEL’s established relationships with its key customers supporting business stability, its multi-disciplinary designing capabilities and an overall long term positive outlook for the engineering services outsourcing from India which are expected to drive growth for the Company. 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.

Company Profile

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.

The Company’s operations can be broadly classified into Software Development & Services (SDS) and System Integration (SI). The larger business segment - SDS - can be further categorized into Embedded Product Design (EPD), Industrial Design (ID) and Visual Computing Labs (VCL) divisions. While EPD division provides hardware, software and embedded system design and development services across the product lifecycles, the ID division addresses industrial design, styling, and branding requirements of customers. VCL division delivers 3D computer graphics, animation and special effects in the pre-production, production and post-production of content for the film, television, gaming and advertising industry. TEL, headquartered in Bangalore, has presence across US, Europe,

* 100 lakhs = 1 crore = 10 millions

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



Asia Pacific & Japan. In India, the Company has Global Development Centres and studios in cities like Bangalore, Thiruvananthapuram, Chennai, Mumbai and Pune

Recent Results (Standalone)

During Q1 2015-16, the Company posted net profit of Rs.35.7 crore on total income of Rs.243.5 crore as against net profit of Rs.20.8 crore on total income of Rs.190.8 crore during the same period previous fiscal. For the full year 2014-15, the Company reported net profit of Rs.102.9 crore on operating income of Rs.850.7 crore.

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