

March 26, 2018

Tata Elxsi Limited

Summary of rated instruments

Instrument*	Previous Rated Amount	Rated Amount (Rs. crore)	Rating Action
Long-term- Fund-based/CC	45.0	45.0	[ICRA]AA(Stable); Reaffirmed
Short-term- Non-fund-based	10.0	10.0	[ICRA]A1+; Reaffirmed
Total	55.0	55.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) to the Rs. 45.0-crore¹ fund-based facilities of Tata Elxsi Limited (TEL/ the company). 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 company². The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of ratings factors in the operational and financial track record of the company, and its strong parentage with Tata Sons Limited (rated [ICRA]AAA / Stable / [ICRA]A1+) holding 44.2% stake and its experienced and professional management team. The financial profile remains comfortable with strong cash accruals, debt free status and healthy liquidity position. During FY2017 and 9M FY2018, TEL's revenues grew by 14.6% (yoy) and 11.1% (yoy), supported by sustained orders from its existing customers and also addition of new customers to its repertoire. With higher employee utilization, margin-accretive contract wins and cost rationalization measures, TEL's operating margins expanded from 22.3% in FY2017 to 24.8% in 9M FY2018. With a moderately diversified customer base (top ten customers contributes ~60% to revenues), favourable demand outlook for end-under industries and strong order pipeline, TEL's revenue visibility remains strong. Further, cash balances to the tune of Rs. 238.6 crore as on September 30, 2017 and un-drawn working capital limits provides comfort to the liquidity position.

The ratings also consider the intense competition in the industry characterised by the presence of large players, however, with value-added services offered by the company, it enjoys pricing flexibility to some extent. The ratings also consider the exposure of earnings to the protectionist policies in some key geographies, rising wage inflation and exchange-rate fluctuations.

Outlook: Stable

ICRA believes that TEL will continue to benefit from its parentage, strong order book pipeline and its execution capability to support its business prospects. The outlook may be revised to 'Positive' if substantial improvement in revenues, capitalization and coverage indicators, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or a higher than expected debt funded capital expenditure weakens liquidity.

¹100 lakh = 1 crore = 10 million

²For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Strong Parentage supporting TEL:** TEL has an experienced and professional management team, and enjoys strong financial flexibility with Tata Sons Limited holding 44.2% stake. Also, under its automotive domain, the Company benefits from business from group companies.
- **Diversified revenues across segments and geographies** – TEL provides design and development of systems and software for various end user industries such as automotive, aerospace, broadcast, communication, consumer electronics and semiconductors. TEL also has a diversified geographical mix with revenues largely derived from Europe, USA and Indian markets.
- **Financial profile characterised by strong margins, debt free status and strong liquidity position** – TEL's financial profile is strong characterised by nil debt and healthy net worth of Rs. 604.5 crore as on September 30, 2017. Its liquidity profile also remains strong with moderate working capital intensity and relatively low capital expenditure requirements; its cash and liquid investments stood at Rs. 238.6 crore as on September 30, 2017 and it also has un-drawn working capital limits of Rs. 55.0 crore. 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
- **Favourable long-term outlook for the product-engineering industry to support future prospects** – Outlook on the Engineering Research & Development (ER&D) remain favourable with increasing R&D budgets of original equipment manufacturers (OEMs) towards software solutions and services. With expertise and established presence in this segment, the company is likely to benefit from the growth of the industry.

Credit weaknesses

- **Competitive industry** - The industry is characterised by intense competition from players enjoying scale benefits and higher bargaining power. While the company is well placed in terms of niche service offerings, multi disciplinary designing capabilities and established presence, pricing environment remains challenging with presence of other players.
- **Vulnerability of margins to foreign exchange fluctuations:** With exports contributing to ~85% of the company's revenues, the company is susceptible to exchange rate fluctuations. Nevertheless, the same is mitigated to some extent by its active hedging mechanism undertaken by the company. The earnings are also susceptible to the protectionist policies in some key geographies, rising wage inflation etc.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for entities in Information Technology Industry](#)

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.



The larger business segment – Software Development & Services - 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. TEL, headquartered in Bangalore, has presence across US, Europe, Asia Pacific & Japan. In India, the company has Global Development Centres and studios in cities like Bangalore, Thiruvananthapuram, Mumbai and Pune.

Key financial indicators (Audited):

	FY2016	FY2017
Operating Income (Rs. crore)	1,076.1	1,233.0
PAT (Rs. crore)	14.4%	14.1%
OPBDIT/ OI (%)	23.5%	22.3%
RoCE (%)	71.5%	55.8%
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDIT (times)	-	-
Interest Coverage (times)	398.9	363.0
NWC/ OI (%)	14.0%	16.3%

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

Status of non-cooperation with previous CRA:Not applicable

Any other information:Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31 2017 (Rs Crore)	Date & Rating	Date & Rating in FY2017		Date & Rating in FY2016	Date & Rating in FY2015
					March 2018	April 2017	Jan 2017	October 2015	June 2014
1	Fund based	Long Term	45.0	-	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA (Stable)	[ICRA] AA- (Stable)
2	Non- fund based	Short Term	10.0	-	[ICRA] A1+	[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
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/CC	NA	NA	NA	45.0	[ICRA]AA (Stable)
NA	Non-fund-based	NA	NA	NA	10.0	[ICRA]A1+

*Source: the company

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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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