

July 24, 2017

Taal Tech India Pvt. Ltd.

Summary of Rated Instruments

Instrument	Amount (Rs. crore ¹)	Rating action
Long-term non-fund based	1.60	[ICRA]BB (Stable); Upgraded from [ICRA]BB-
Short-term fund-based	6.00	[ICRA]A4+; Upgraded from [ICRA]A4
Total	7.60	

**Instrument Details are provided in Annexure-1*

Rating action

ICRA has upgraded the long-term rating from [ICRA]BB- (pronounced as ICRA double B minus)² to [ICRA]BB (pronounced as ICRA double B) for the Rs. 1.60-crore long-term non-fund based facilities of Taal Tech India Private Limited. The outlook on the long-term rating is stable. ICRA has also upgraded the short term rating from [ICRA]A4 (pronounced as ICRA A four) to [ICRA]A4+ (pronounced as ICRA A four plus) for Rs. 6.00-crore short-term fund-based facilities of the company.

Rationale

The ratings take into account the healthy growth of ~44% in the company's revenues in FY2017 supported by customer addition and increased orders from existing customers. The ratings, positively factors the improvement in operating margins aided by scale economies from increased absorption of employee costs and the improvement in the capital structure and coverage indicators aided by reduction in debt levels and healthy accretion to reserves in FY2017. The ratings continues to draw comfort from the experienced management and employee base and its ability to provide customized engineering design services across diverse industries, benefiting it in the intensely competitive Information Technology (IT) industry.

However, the ratings are constrained by moderate scale of operations, notwithstanding the revenue growth witnessed in FY2017, which restricts the operational and financial flexibility. The ratings also factors in the weak financial profile of the parent company, Taal Enterprise Limited. ICRA also notes the intense competition in the industry, characterised by the presence of a large number of domestic and international players which may limit the pricing flexibility to some extent. Further, with almost the entire revenues being derived from the overseas market, the company is exposed to foreign currency fluctuation risk in the absence of any formal hedging mechanisms. Going forward, the ability of the company to sustain the growth momentum and maintain its profitability will be the key rating sensitivity.

¹ 100 lakhs = 1 crore = 10 millions

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

Key rating drivers**Credit strengths**

- Healthy growth in revenues in FY2017 supported by new customer additions and increased orders from existing clients
- Improvement in operating margins aided by scale economies
- Improvement in the capital structure aided by reduction in debt levels and healthy accretion to reserves in FY2017
- Healthy coverage indicators supported by improved operating margins and decline in debt levels
- Revenues fairly diversified across multiple industries

Credit weaknesses

- Moderate scale of operations, notwithstanding the revenue growth witnessed in FY2017, limiting the financial and operational flexibility to an extent
- High competitive intensity in the industry due to presence of larger and established domestic and international players
- Exposure of the company to foreign currency fluctuation risks with significant proportion of revenue derived from exports
- Weak financial profile of the parent company – Taal Enterprises Limited

Description of key rating drivers highlighted above:

Taal Tech serves as an off shore and onsite software service provider, offering customized solutions in the areas of engineering, IT services, and internet of things (IoT). The services offered include design engineering, concept development, plant engineering, control and automation and staffing, catering to multiple industries, reducing the risk of reliance on any particular industry/customer/segment. In FY2017, the company achieved significant growth in revenues of ~44% supported by new customer acquisitions coupled with incremental order growth from existing clients. Over the four years of operations, it has been able to add around 50 clients to the customer base. Also, the customer concentration of the company remains quite moderate with top ten customers contributing to ~60% of the revenues during FY2017. The company usually enters into three years contract with the customers, providing revenue visibility in the medium term. The operating margins of the company improved from 8.56% in FY2016 to 15.21% in FY2017, aided by scale economies from increased absorption of employee costs as well as general and administration costs. The capital structure and coverage indicators also improved significantly on account of reduction in debt levels with repayment of unsecured loans and improved net-worth aided by healthy accruals. The gearing of the company reduced from 2.86 times as on March 31, 2016 to 0.48 times as on March 31, 2017. Taal Tech caters to the clients based out of USA and Europe. Consequently, a major portion of the company's revenues are export driven which exposes the revenues and margins of the company to foreign currency rate fluctuations. However, the company gets natural hedge to some extent due to the foreign-currency payables to the employees working on-site. Apart from this, the company faces stiff competition from large domestic and international players in the industry.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology
Information Technology Industry

About the company:

Taal Tech India Private Limited (Taal Tech) commenced its operations in August 2013 and is an engineering and technology solutions provider, serving companies in different sectors like aerospace, automotive, civil & infrastructure, industrial, rail, energy & utilities and transportation sectors. Headquartered in Bangalore, Taal Tech caters to the clients based out of the USA, Canada, Europe and India. The key services include sustenance engineering, value analysis and engineering, new product design & development, detailed engineering, technical publications, onsite professional services and manufacturing support services. The company was initially a 100% subsidiary of Taneja Aerospace & Aviation Limited. However, from FY2015, it became a subsidiary of Taal Enterprises Ltd, a BSE listed company, involved in providing air-charter services.

For FY2017, the company reported a net profit of Rs. 8.46 crore on an operating income of Rs. 83.48 crore as against net profit of Rs. 0.91 crore on an operating income of Rs. 58.08 crore in FY2016.

Key Financials

	FY16	FY17
Operating income (Rs. Crores)	58.08	83.48
PAT (Rs. Crores)	1.56%	10.13%
OPBDIT/ OI (%)	8.56%	15.21%
RoCE (%)	29.85%	70.57%
Total Debt/ TNW (times)	2.86	0.48
Total Debt/ OPBDIT (times)	1.93	0.44
Interest coverage (times)	2.52	9.33
NWC/ OI (%)	12.86%	14.73%

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 FY2017	Month- year & Rating in FY2017	Month- year & Rating in FY2016
				July 2017	Nov 2016	Sep 2016	May 2015
1	Non-fund based	Long Term	1.60	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable) Suspended	[ICRA]BB-(Stable)
2	Fund based	Short Term	6.00	[ICRA]A4+	[ICRA]A4	[ICRA]A4 Suspended	[ICRA]A4

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

Bank	Name of the instrument	Date of issuance/sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Vijaya Bank	Capex LC	-	-	-	1.60	[ICRA]BB (Stable)
Vijaya Bank	Pre-shipment credit/Post-shipment credit	-	-	-	6.00	[ICRA]A4+



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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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