

Press Release

Mindcraft Software Private Limited

October 11, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs.5.00 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Upgraded from ACUITE BB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB-**' (read as **ACUITE double B Minus**) to the Rs.5.00 crore bank facilities of Mindcraft Software Private Limited. The outlook is '**Stable**'.

The upgrade in the rating considers the continued improvement in scale of operation from Rs 37.46 crore in FY20 to Rs 44.68 in FY21 along with an improvement in operating profitability from 8.99 per cent to 9.39 per cent over the same period. The upgrade in rating also considers the improvement in financial risk profile due to decline in term liabilities. The same has resulted in improvement of gearing from 0.45 times in FY20 to 0.12 times in FY21 (Prov.) and total liabilities to net worth from 1.12 times to 0.65 times over same period.

The rating continues to factor in the experienced promoters with long track record of operations resulting in business relationship with reputed client, moderate financial risk profile and adequate liquidity. However, the above ratings are constrained by decline in net profit and elongated debtors days.

About the rated entity

Mindcraft Software Private Limited (MSPL) is Mumbai based company, incorporated in 2002 by Mr. Haresh Hirani, Mr. Hemant Nerurkar, Mr. Anuraag Gupta and Mr. Neeraj Manchanda. The company is engaged software solutions and services organization offering integration solutions, business intelligence solutions and software infrastructure management services.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Mindcraft Software Private Limited (MSPL).

Key Rating Drivers

Strengths

- **Extensive experience of promoters and their established presence in the business**

The company was incorporated in 2002 and by Mr. Haresh Hirani, Mr. Hemant Nerurkar, Mr. Anuraag Gupta and Mr. Neeraj Manchanda. The promoters have almost two decades of experience in managing business operations of the company and is familiar with changing trends in IT industry.

Acuité believes that the company will continue to benefit from the promoters' experience and established track record of operations in improving its business risk profile over the medium term.

- **Increase in total operating income in FY21 (Prov.)**

The total revenue of the company improved to Rs.44.68 crore in FY21 (Prov.) against Rs. 37.45 crore in FY20, thereby registering y-o-y growth of 19.31 per cent. The increase in TOI is backed by growing need of digitization, which has boosted revenue of the company. Further, as the company is involved in providing IT services, there had not been any impact of COVID-19 on operations of the company. In line with increase in income, operating profit of the company improved to Rs.4.20 crore in FY21 (Prov.) as against Rs.3.37 crore in FY20. The operating margin also improved marginally by 40bps to 9.39% in FY21 over FY20. During Q1 FY22, the company has already reported sales of Rs.13.22 crore.

• **Moderate financial risk profile**

The capital structure of the company as represented by debt-equity ratio improved to 0.12 times as on March 31, 2021 (Prov.) as against 0.45 times as on March 31, 2020, as a result of decline in term debt. As on August 31, 2021, the company has outstanding term debt of Rs. 0.88 crore. The interest coverage ratio improved to 7.11 times during FY21 as against 3.55 times during FY20, backed by decline in interest expense and improvement in operating profits. Similarly, net cash accruals to total debt remained at 0.65 crore as on March 31, 2021 vis-à-vis 0.38 times as on March 31, 2020. The total outstanding liability to tangible net worth remained at similar level at 1.12 times during FY21 (Prov.).

Acuite expects the financial risk profile to improve over the medium term in absence of any debt funded capex.

• **Reputed clientele base**

The long standing existence of the company has enabled in establishing reputed clientele base such as Birla Sunlife Insurance, TATA Life, Aditya Birla Mutual Funds, Ratnakar Bank Limited BNP Paribas, Cipla, HDFC Bank, ICICI Bank, ICICI Prudential Life Insurance, Kotak Bank, The Bombay Stock Exchange, Yes Bank etc. The company has total 60-65 clients, however around 60% of revenue is derived from 20 customers.

• **Efficient Working capital management**

The Gross Current Asset days of the company improved to 118 days in FY21 against 159 days in FY20, backed by decline in current asset in the form of recoveries and receivables and accrued revenue. The creditor days declined to 39 days in FY21 as against 74 days in FY20, on account of increase in cost of material consumed w.r.t the sale of products. The average utilisation for past 7 months ending July 2021 remained at moderate level of 67%.

Weaknesses

• **Decline in net profit and margins**

The net profit of the company declined to Rs.0.87 crore in FY21 (Prov.) vis-à-vis Rs.1.10 crore in FY20. This is due to provision for deferred tax of Rs.0.58 crore FY20 as against Rs.0.09 in FY21, resulting in lower tax expenses in FY20. The net profit margin, albeit declined remained at 1.95% in FY21 (2.92% in FY20).

• **Elongated debtors' days**

The debtor days increased to 66 days in FY21 as against 58 days in FY20, led by increase in outstanding receivables to Rs.8.10 crore as on March 31, 2021 (Prov.) as against Rs.5.99 crore as on March 31, 2020. This is due to impact of COVID-19 wherein the realisation of receivables were delayed.

Rating Sensitivities

- Improving scale of operations while improving profitability.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity Position: Adequate

The liquidity position of the company continues to remain at adequate level of Rs.3.37 crore in FY21 against debt repayment of Rs.0.30 crore, thereby providing sufficient cushion. The cash and bank balance remained at Rs.0.08 crore as on March 31, 2021. The current ratio improved to 1.30 times as on March 31, 2021 (Prov.) as against 1.08 times as on March 31 2020. The company is expected to generate net cash accruals of Rs.3.64-4.06crore during FY22-24 against expected debt repayment of Rs.0.12-Rs.0.26 crore during the period.

Outlook: Stable

Acuite believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues and improvement in profitability margins, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and

operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	44.68	37.46
PAT	Rs. Cr.	0.87	1.10
PAT Margin	(%)	1.95	2.92
Total Debt/Tangible Net Worth	Times	0.12	0.45
PBDIT/Interest	Times	7.11	3.55

Status of non-cooperation with previous CRA (if applicable)- Not Applicable

Any other information

None.

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading entities-<https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-July-2020	Overdraft	Long Term	5.00	ACUITE BB-/Stable (Reaffirmed)
04-July-2019	Overdraft	Long Term	5.00	ACUITE BB-/Stable (Assigned)

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Corporation Bank	Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/Stable (Upgraded from ACUITE BB-)

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About Acuité Ratings & Research:

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