

Press Release

Kumaran Systems Private Limited (KSPL)

18 October, 2017



Rating Upgraded

Total Bank Facilities Rated*	Rs.9.00 Cr
Long Term Rating	SMERA B /Stable

*Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating of '**SMERA B**' (**read as SMERA B**) on the Rs.9.00 crore bank facilities of Kumaran Systems Private Limited (KSPL). The outlook is '**Stable**'

Incorporated in 1999, KSPL is a Chennai-based software development company that offers technology solutions, high end consulting, system integration, infrastructure management and business process outsourcing to companies like Canadian Imperial Bank of Commerce, Honda North America Inc and Averant National Insurance Company.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced management: The company was incorporated in 1999 by Mr. Kumaran Mangalam Subramaniam, Mr. Mohan Kumar Subramanyan, Mr. Vijaya Sekar Subramanyan and others. The management possesses over a decade of experience in the IT sector.

Healthy financial risk profile: KSPL has a healthy financial risk profile marked by gearing of 0.41 times as on 31 March, 2017 (Provisional) compared to 0.27 times as on 31 March, 2016. The interest coverage ratio stood at 3.15 times for FY2016-17 (Provisional) as against 3.12 times for FY2015-16. The company has moderate net worth of Rs.23.70 crore as on 31 March, 2017 and Rs.22.87 crore in the previous year.

Weaknesses:

Exposure to foreign exchange fluctuation risk: The company generates maximum revenue from export to US and Canada. As a result, it is exposed to foreign exchange fluctuation risk in the absence of a mechanism to mitigate the risk.

Working capital intensive operations: The operations are working capital intensive with Gross Current Assets (GCAs) of 146 days on account of high debtor days of 135 days in FY2016-17.

Analytical approach: Standalone business and financial risk profile of the company

Applicable Criteria

- Entities in service sector :<https://www.smera.in/criteria-services.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition:<https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that KSPL will maintain a stable outlook and continue to benefit from its experienced management and established operational record. The outlook maybe revised to 'Positive' in case of healthy increase in scale of operations and profitability while maintaining effective working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile on account of decline in net cash accruals or stretched liquidity owing to stressed working capital management.

About the rated entity - Key financials:

For FY2016-17 (Provisional), KSPL registered profit after tax (PAT) of Rs.0.83 crore on operating income of Rs.42.23 crore as against profit after tax of Rs.0.18 crore on operating income of Rs.33.45 crore in FY2015-16. Further, the networth stood at Rs.23.70 crore as on 31 March, 2017 (Provisional) as against Rs.22.87 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA: None

Any other information: None

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating history (last three years):

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
10 Feb, 2016	Cash Credit	Long Term	5.00	SMERA B-/Stable (Assigned)
	Term Loan	Long Term	2.50	SMERA B-/Stable (Assigned)
	Cash Credit (Proposed)	Long Term	1.50	SMERA B-/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	5.00	SMERA B/Stable (Upgraded)
Term Loan	NA	NA	NA	2.50	SMERA B/Stable (Upgraded)
Cash Credit (Proposed)	NA	NA	NA	1.50	SMERA B/Stable (Upgraded)

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