

### Apoorva IT Solutions Private Limited: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	4.00	SMERA BB/Stable (Assigned)
Bank Guarantee	2.50	SMERA A4+ (Assigned)
Letter of Credit	3.50	SMERA A4+ (Assigned)

SMERA has assigned long-term rating of **'SMERA BB' (read as SMERA double B)** and short-term rating of **'SMERA A4+' (read as SMERA A four plus)** to the above mentioned bank facilities of Apoorva IT Solutions Private Limited (Apoorva IT). The outlook is **'Stable'**.

The ratings derive strength from the experienced management, healthy profit margins and comfortable financial risk profile. However, the ratings are constrained by the small scale of operations, high dependency on government organisations and the working capital intensive operations. The ratings also take into account the exposure to intense competition in the information technology (IT) industry.

The erstwhile Apoorva IT Solutions, established in 1998 by Mr. Murlidhar Reddy and family was changed to Apoorva IT Solutions Private Limited in April, 2016. The company registered healthy profit margins of around 7.57 per cent in FY2016 as against 7.31 per cent in FY2015. The company has comfortable financial risk profile marked by moderate gearing of 1.13 times as on March 31, 2016 as compared to 0.59 times in the previous year. The interest coverage ratio stands at 1.98 times in FY2016.

However, the ratings are constrained by the small scale of operations with revenue of Rs.21.38 crore in FY2016 as compared to Rs.17.62 crore in the previous year. The company has reported revenue of around Rs.14.50 crore from April, 2016 to October, 2016 (Provisional). Further, the company has Rs. ~56.00 crore worth of orders as on November, 2016 providing revenue visibility for FY2016-2017.

The ratings also factor in the high dependence on government organisations since around ~90 per cent is earned from Ministry of Defence - Defense Research and Development Laboratory, Defence Research and Development Organisation, public sector units among others.

The operations are working capital intensive reflected in the gross current assets (GCA) of 337 days in FY2015-16 that deteriorated from 194 days in the previous year. The high GCA emanates from the high debtor days of 248 as a result of yearend sales in FY2015-16. Also, the average utilisation of bank limits has remained high at around ~97 per cent for the past six months ended November 30, 2016.

#### Rating Sensitivity Factors

- Scaling up operations while maintaining margins
- Efficient working capital management
- Changes in financial risk profile

#### Outlook-Stable

SMERA believes that Apoorva IT will maintain a stable outlook and continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' if its scale of operations increases substantially while maintaining operating profitability. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve profitability or if the financial risk profile deteriorates owing to higher capex or more than envisaged working capital requirements.

**Criteria applied to arrive at the ratings:**

- Trading Entities

**About the Company**

Apoorva IT was established in 1998 by Mr. Murlidhar Reddy and family. The company is a distributor of hardware products of reputed brands including HP, Cisco, Microsoft, RedHat among others. It also offers integrated solutions and maintenance services.

For FY2015–16, the company reported profit after tax (PAT) of Rs.0.57 crore on operating income of Rs.21.38 crore, as compared with net profit of Rs.0.35 crore on operating income of Rs.17.62 crore in FY2014–15.

**Contacts:**

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: <a href="mailto:mohit.jain@smera.in">mohit.jain@smera.in</a>	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: <a href="mailto:suman.m@smera.in">suman.m@smera.in</a>

**ABOUT SMERA**

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