

Press Release

Drivestream India Private Limited

May 10, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs.5.00 Cr.
Long Term Rating	SMERA BB-/Stable (Downgraded)

* Refer Annexure for details

Rating Rationale

SMERA has downgraded the long-term ratings of Drivestream India Private Limited (DIPL) to '**SMERA BB-**' (read as **SMERA double B minus**) from '**SMERA BB**' (read as **SMERA double B**). The outlook is '**Stable**'.

The downgrade is in view of buildup of receivables, and liquidity pressure emanating from the stretched operating cycle; operating revenues have declined by about 20 per cent from the earlier estimated levels for FY 2018 (refers to financial year April 1st to March 31st). Profit-after-tax has declined from Rs.2.25 crore in FY2016 to Rs.1.78 crore in FY2017 and further to about Rs.1.5 crore in FY2018 on provisional basis.

Drivestream India Private Limited (DIPL) incorporated in 2002, is a Chennai based company promoted by Mr. Gopal Damodar Krishna. The company provide IT consulting, maintenance and up gradation services. DIPL is a service partner for Oracle and undertakes job works for various companies.

Key rating drivers

Strengths

Established track record of operations and experienced management

DIPL was established in 2002. The directors, Mr.Gopal Damodar Krishna, Mr. Bhanumurthy, Mr.R Damodaraswamy and others possess more than a decade of experience in software consulting and services. DIPL's main revenue source and the client is Drivestream Inc, USA which is an associate entity of DIPL. Drivestream Inc has customer base of Bank of America, JP Morgan Chase and PNC Bank among others. Apart from, DIPL has its own clientele in domestic front which includes Wipro Limited, Mphasis Limited and Oracle India Private Limited among others. SMERA believes that DIPL continues to benefit from the promoters' vintage in the industry.

Moderate financial risk profile

DIPL's financial risk profile is moderate marked by healthy gearing and debt protections, though underpinned by modest net worth. DIPL's net worth is modest at Rs.11.49 crores as on March 31, 2017, though improved from Rs.9.71 crore in 2016. Gearing (Debt-Equity Ratio) is healthy at 0.37 times as on March 31, 2017, though marginally deteriorated from 0.30 times as on March 31st 2016. Debt protection metrics of interest coverage ratio (ICR) is healthy at 7.77 times for FY2017. SMERA believes that DIPL's financial risk profile continues to be moderate in the absence of any significant debt-funded capex plans over the medium term.

Weaknesses

Modest scale of operation and client concentration

DIPL's revenues are modest in the software industry, despite having been in the industry for about one and half decade. DIPL's revenues on provisional basis for FY2018 are at Rs.23.73 crores against Rs.24.73 crores for FY2017; this is against the earlier estimate of about Rs.30.0 crores, decline by about 22 per cent. Further,

the revenues are skewed towards one single client leading to revenue concentration. SMERA believes that the revenue profile of DIPL continues to be modest in the absence of major break-through in the client addition and, revenue concentration with its group entity.

Working capital intensive operations and declining profitability

The Company's operations remained working capital intensive, as reflected in high gross current assets (GCA) of about 260 days (on provisional basis) as on March 31, 2018 as compared to 233 days as on March 31, 2017; it's a deterioration from 166 days as on March 31, 2015. Profitability has also decreased from 20.3 per cent in FY2016 to 14.9 per cent in FY2017, and further to about 12.6 per cent in FY2018 (provisional); this resulted in decline of net cash accruals from Rs.2.78 crore in FY2016 to about Rs.1.8 crore in FY2018 causing pressure on the liquidity. Its bank lines are highly utilized at about 80 per cent for 12 months through March 2018. SMERA believes that the operations of DIPL continues to be working-capital-intensive and exposed to the counter party risk.

Outlook: Stable

SMERA believes that DIPL will continue to benefit over the medium term from experienced management. The outlook may be revised to 'Positive' in case the company registers strong growth in revenues while improving its profitability and working capital management. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management, leading to deterioration of its financial risk profile and liquidity.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	24.73	21.94	16.00
EBITDA	Rs. Cr.	3.69	4.46	2.23
PAT	Rs. Cr.	1.78	2.25	0.95
EBITDA Margin	(%)	14.94	20.31	13.94
PAT Margin	(%)	7.19	10.25	5.93
ROCE	(%)	23.42	37.51	26.00
Total Debt/Tangible Net Worth	Times	0.37	0.30	0.53
PBDIT/Interest	Times	7.77	11.86	7.79
Total Debt/PBDIT	Times	1.16	0.65	1.29
Gross Current Assets (Days)	Days	245	223	175

Any other information: Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities in Service Sector: <https://www.smera.in/criteria-services.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-Feb-2016	Cash Credit	Long Term	5.00	SMERA BB/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	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB-/Stable (Downgraded)

Contacts:

Analytical	Rating Desk
Suman Chowdhury President – SMERA Bond Ratings Tel: +91-22-6714 1107 Email: suman.chowdhury@smera.in Solaman Sunny Rating Analyst Tel: 080-46634604 Email: solaman.sunny@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.