

Press Release

Virtual Galaxy Infotech Private Limited

March 22, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 17.00 crore bank facilities of Virtual Galaxy Infotech Private Limited (VGPL). The outlook is '**Stable**'.

The Nagpur-based, VGPL was incorporated in 1997 by Mr. Avinash Shende and Mr. Sachin Pande. It is engaged in providing Information Technology services such as Core Banking Software (CBS) Solution to Co-operative Banks/Societies, ERP services to SME's and corporates & E-governance software services to APMCs.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of VGPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

Established in 1997, the company is promoted by Mr. Avinash Shende and Mr. Sachin Pande who have been associated with the Information Technology industry for more than three decades. Established presence in the industry has helped the company build a healthy portfolio of reputed clientele not only in India but also in the international market by way of export of services.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by healthy net worth which stood at Rs.16.34 crore as on 31 March, 2018 as against Rs.15.10 crore as on 31 March, 2017. The gearing improved to 0.81 times as on 31 March, 2018 against 1.08 times as on 31 March, 2017. The total debt as on March 31, 2018 of Rs.13.23 crore comprises unsecured loans from Directors and relatives of Rs.3.42 crore, long term borrowing of Rs.2.43 crore and short term working capital borrowings of Rs.7.38 crore. Interest Coverage Ratio stood at 2.86 times for FY2018 and 2.69 times for FY2016. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.27 times in FY2018. Acuité believes that the company will continue to maintain its financial risk profile on account of stable revenue and profitability and absence of any major debt funded capex.

Weaknesses

- **Working capital intensive operations**

The working capital cycle is stretched marked by Gross Current Asset (GCA) of 302 days in FY2018 as against 385 days in FY2017. The GCA days are mainly dominated by debtor days of 219 in FY2018 as against 292 in FY2017. Creditor days stood at 143 in FY2018 against 81 in FY2017. Acuité believes that the working capital management will be crucial to the company in order to maintain a stable credit profile.

- **Highly fragmented and competitive service industry**

VGPL operates in a highly fragmented service industry with a large number of players in the organised and unorganised segment.

Liquidity Position:

The liquidity profile of the company is expected to remain adequate over the medium term. The net cash accruals stood at Rs.3.53 crore in FY2017-2018 as against debt obligations of Rs.0.90 crore. Over the medium term, the net cash accruals are projected to be in range of Rs.2.00- 2.50 crore as against maturing debt obligations of Rs.4.00-5.00 crore through FY2019-2021, backed by stable revenues and profitability. Bank limits utilisation stood at 90 percent for the last six months ending January, 2019.

Outlook: Stable

Acuite believes that VGPL will maintain a 'Stable' outlook and benefit over the medium term from its promoters extensive industry experience. The rating outlook may be revised to 'Positive' in case of sustainable growth in revenues while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' if the working capital cycle further deteriorates due to stretch in payment realisation from customers or if the company undertakes significant debt funded capex leading to deterioration in its financial risk profile, especially liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	26.68	25.07	23.72
EBITDA	Rs. Cr.	6.01	6.67	6.27
PAT	Rs. Cr.	1.24	1.05	0.92
EBITDA Margin	(%)	22.53	26.62	26.43
PAT Margin	(%)	4.64	4.19	3.90
ROCE	(%)	12.67	12.91	11.76
Total Debt/Tangible Net Worth	Times	0.81	1.08	1.22
PBDIT/Interest	Times	2.86	2.69	2.87
Total Debt/PBDIT	Times	2.15	2.41	2.66
Gross Current Assets (Days)	Days	302	385	394

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Jan-2018	Term Loan I	Long Term	0.05	ACUITE BB+ / Stable (Assigned)
	Term Loan II	Long Term	0.10	ACUITE BB+ / Stable (Assigned)
	Term Loan III	Long Term	2.62	ACUITE BB+ / Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BB+ / Stable (Assigned)
	Proposed Long Term Loan	Long Term	2.23	ACUITE BB+ / Stable

			(Assigned)
Bank Guarantee	Short Term	4.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans I	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BB+ (Withdrawn)
Term loans II	Not Applicable	Not Applicable	Not Applicable	0.10	ACUITE BB+ (Withdrawn)
Term loans III	Not Applicable	Not Applicable	Not Applicable	1.66	ACUITE BB+ / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+ / Stable (Reaffirmed)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	3.34	ACUITE BB+ / Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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