

Press Release

Virtual Galaxy Infotech Private Limited

June 12, 2020

Rating Downgraded



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

* Refer Annexure for details

Rating Rationale

Acuite has downgraded its long term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB+**' (read as **ACUITE double B Plus**) and the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.17.00 crore bank facilities of Virtual Galaxy Infotech Private Limited (VG IPL). The outlook is '**Stable**'.

The downgrade is in the view of liquidity pressures observed in the near term, significant jump in borrowing from unsecured sources in recent years and sizable value of debtors.

Virtual Galaxy Infotech Private Limited (VG IPL) is a Nagpur based company having satellite office in Mumbai was established in 1997 by promoters and directors Mr. Avinash Shende and Mr. Sachin Pande. It is engaged in providing Information Technology services in areas like Application development, IT infrastructure development, Mobile Computing, cloud computing, big data, artificial intelligence, internet of things, data center & data recovery, and digital marketing solutions.

Analytical Approach

Acuite has considered the standalone view of the financial and business risk profiles of Virtual Galaxy Infotech Private Limited (VG IPL) to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

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.

Weaknesses

• Average financial risk profile

VG IPL's financial risk profile is average, marked by modest net worth of Rs.19.71 crore, increasing in gearing of 1.32 times as on March 31, 2020 (Provisional) from 0.98 times as on March 31, 2019 and average debt protection matrices.

The network levels have remained modest due to its modest scale of operations, which has resulted in limited accretion to reserves over the last three years through FY2020 (Provisional). Though, the revenues of the company are expected to remain in the range of Rs.30-35 crore over the medium term, the repayments towards its debt obligations are likely to lead to limited accretion to reserves.

The Interest Coverage Ratio (ICR) improved to 3.51 times for FY2020 (Prov.) and for FY2019 from 2.86 times in FY2018. Debt Service Coverage Ratio (DSCR) improved to 3.15 times for FY2020 (Prov.) from 2.09 times in FY2019 and 2.64 times in FY2018.

Its Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.81 times as on March 31, 2020 (Prov.) as against 1.90 times as on March 31, 2019 increasing from 1.35 times as on March 31, 2018.

And the Net Cash Accruals/Total Debt (NCA/TD) reduced to 0.17 times as on 31st March, 2020 (Prov.) from 0.23 times as on 31st March, 2019 from 0.27 times as on 31st March, 2018

Acuite expects the network to remain modest in the range of Rs.20-25 crore over the medium term, in the

absence of any equity infusion by the promoters.

• Working capital intensive operations

VGIPL's operations are working capital intensive in nature as reflected by its Gross Current Asset (GCA) days of around 288 days as on March 31, 2020 (Provisional) as against 284 days as on March 31, 2019. The GCA days are stretched on account of Debtor days of 203 days as on March 31, 2020 (Provisional) as against 209 days as on March 31, 2019. Its Creditor days stood at 88 days as on March 31, 2020 (Provisional) as against 99 days as on March 31, 2019. VGIPL's working capital limits over the last twelve month period ended May 2020, was utilized at an average of 99%.

Acuite believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Significant increase in Unsecured Loans

The company has recently started relying in borrowings from unsecured sources due to collateral free nature of such loans which has increased its cost of borrowing. The borrowings from unsecured sources increased to Rs.16.29 crore as on March 31, 2020 (Provisional) from Rs.9.28 crore as on March 31, 2019 and Rs.3.42 crore as on March 31, 2018.

Liquidity position: Stretched

The company has stretched liquidity position marked by intensive working capital operations and it's near 100 percent utilization of bank facilities. The cash and bank balances stood at Rs.1.07 crores as on March 31, 2020 (Provisional) and the current ratio of the company stood at 1.40 times as on March 31, 2020 (Provisional). Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of comfortable cash accruals against the repayment obligations over the medium term.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.

Material Covenants

None

Outlook: Stable

Acuite believes that the company will maintain a 'Stable' outlook over the medium term owing to its established presence in the industry extensive experience of its promoters and established relations with customers. The outlook may be revised to 'Positive' in case the company registers more than expected revenue growth while maintaining its profitability and registering improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving expected revenues profitability or if the working capital cycle further deteriorates.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	30.43	28.12
PAT	Rs. Cr.	1.92	1.45
PAT Margin	(%)	6.32	5.15
Total Debt/Tangible Net Worth	Times	1.32	0.98
PBDIT/Interest	Times	3.51	3.51

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector Entities - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
22-Mar-2019	Term Loan I	Long term	0.05	ACUITE BB+ (Withdrawn)
	Term Loan II	Long term	0.10	ACUITE BB+ (Withdrawn)
	Term Loan III	Long term	1.66	ACUITE BB+/ Stable (Reaffirmed)
	Cash Credit	Long term	8.00	ACUITE BB+/ Stable (Reaffirmed)
	Proposed Long Term Loan	Long term	3.34	ACUITE BB+/ Stable (Reaffirmed)
	Bank Guarantee	Short term	4.00	ACUITE A4+ (Reaffirmed)
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. Crore)	Ratings/Outlook
Term Loan	November, 2014	14.10%	March, 2022	1.00 (Revised from Rs.1.66 Cr)	ACUITE BB-/ Stable (Downgraded from ACUITE BB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00 (Revised from Rs.8.00 Cr)	ACUITE BB-/ Stable (Downgraded from ACUITE BB+/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE BB-/ Stable (Downgraded from ACUITE BB+/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A4 (Downgraded from ACUITE A4+)

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About Acuité Ratings & Research:

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