

Press Release

Virtual Galaxy Infotech Private Limited

May 05, 2021

Rating Assigned



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

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB+**' (read as **ACUITE Double B plus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 17.00 Cr bank facilities of Virtual Galaxy Infotech Private Limited (VGPL). The outlook is '**Stable**'.

About the company

Virtual Galaxy Infotech Private Limited (VGPL) is a Nagpur based company having satellite office in Mumbai. The company was established in 1997 by promoters and directors namely Mr. Avinash Shende and Mr. Sachin Pande. VGPL 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.

The company is operating in the domain of Banking/BFSI, ERP, E-Governance Biz., APMCs, Data Centre and Disaster Recovery Site, Cloud hosting, Digital Payments, Hardware, Facility Management Networking, Connectivity, and services. The company has recently developed innovative Digital Payment and Cloud Store products for SMEs and SMBs

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and establish Presence in the market**

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 two decades. VGPL has development centre in India with its Sales and Marketing team spread across 12 branch offices within India and 2 overseas offices with an integrated network connecting global offices and development centre. VGPL has state of art Data Centre, which provides 24x7 Helpdesk, server co-location, and 4 Lease Lines with a band width of 2-6 MBPS for excellent customer support. It has a pool of Technical and Functional consultants trained in Application Implementation and Optimization to help customers get maximum benefits for the penny start. The company is well supported by second line of management.

- **Improving scale of operations and margins**

The company has achieved operating income of Rs 30.65 crores in FY2020 as against Rs 28.12 crores in FY2019. The domestic sales contributes 95% and 5% is from export sales. VGPL sales have been growing at a CAGR of 6.62% in last five years. The company has booked revenue of Rs.41.56 crores

for FY2021 (Provisional). The increase is due to continuous product development and addition contributing in revenue mix. The growth in sale in FY2021 is 35.60% as against FY2020. The PBDIT margin in FY2020 stood improved at 23.28 % as against 22.55% in FY2019. The company has earned Profit after tax of Rs. 1.75 crore for the FY2020 higher than Rs. 1.45 crores achieved during the FY2019. The PAT margin 5.72% in the FY 2020 as against 5.15% in the FY2019.

• **Moderate financial risk profile**

VGPL's financial risk profile is moderate, marked by a moderate network, low gearing and above average debt protection metrics. The network stood moderate at Rs.19.54 crores as on March 31, 2020 which has seen significant improvement over the last year which stood at Rs 17.79 crores, on back of accretion of reserves. Debt to equity stood at 1.37 times as on March 31, 2020 as compared to 0.98 times as on March 31, 2019. Total outside liabilities to tangible net worth (TOL/TNW) is 2.49 times as on March 31, 2020 as against 1.90 times as on March 31, 2019. The interest coverage ratio stood at 3.43 times as on March 31, 2020 as against 3.51 times as on March 31, 2019. The DSCR stood comfortable at 2.43 times as on March 31, 2020 and 2.09 times as on March 31, 2019. NCA/TD at 0.16 times for FY2020 has slightly decreased as compared to FY2019 which was 0.23 times. Acuite believes that going forward the financial risk profile of the company will remain moderate backed by steady accruals and moderate debt funded capex plan.

Weaknesses

• **Working capital intensive operations**

VGPL working capital cycle is moderately managed as is reflected by its gross current asset (GCA) days of around 272 days as on March 31, 2020 as against 284 days as on March 31, 2019. The higher GCA is marked by high receivables which stood at 200 days as on March 31, 2020 as against 209 days as on March 31, 2019. The receivables stood high due to different payment terms which includes monthly, quarterly, half yearly and annually. On the other hand, the creditor days reduced from 99 days in FY2019 to 87 days in FY2020. As a result, the reliance on working capital limits stood moderately utilised at 84.00 percent for last nine month ending March 2021. Inventory days have decreased to 1 day as on March 31, 2020 as against 4 days as on March 31, 2019.

• **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. The company faces direct competition from many organised and established players in the domestic market. There are various players catering to the same market which leads to limit the bargaining power of the company and consequent pressure on its margins. Though the company is empaneled for various Government agencies and various financial institutions for IT needs, but the orders are majorly awarded through the tender-based system. Any change in policy and spending on projects are likely to affect the revenues of the company. Further, IT industry is cyclical in nature which leads to fluctuation in demand. The industry is highly technology oriented which keeps on changing time to time. Thus, the company has to keep upgrading its work procedure according to the needs of the clients.

Rating Sensitivities

- Improving scale of operations and margins
- Elongation in working capital cycle
- Deterioration in financial risk profile on account of higher than expected debt funded capital expenditure.

Liquidity Position: Adequate

The net cash accruals of the VGPL has remained in the range of Rs. 3.53 to Rs. 4.41 crores for last three years ending FY2020. The repayment obligations for the same period stood at Rs. 0.30 to Rs.0.60 crores for the same period. The GCA days have stood at 272 days in FY2020 reduced from 284 days in FY2019. The current ratio stood at 1.32 times in FY2020 as against 1.50 times in FY2019. The company has

maintained bank deposits and unencumbered cash and bank balances of Rs.0.96 crores as on March 31, 2020. The NCA/TD stood at 0.16 times, in FY2020 and 0.23 times in FY2019 respectively.

Outlook: Stable

Acuite believes that VGPL will continue to benefit over the medium term due to its "established market position and established relations with its customers, moderate financial risk profile and 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	30.65	28.12
PAT	Rs. Cr.	1.75	1.45
PAT Margin	(%)	5.72	5.15
Total Debt/Tangible Net Worth	Times	1.37	0.98
PBDIT/Interest	Times	3.43	3.51

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

None

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <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)

Not Applicable

*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 Loan	30/03/2020	Not Available	26/03/2027	4.68	ACUITE BB+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB+/Stable (Assigned)
Working Capital Term Loan	22/06/2020	Not Applicable	21/05/2024	1.82	ACUITE BB+/Stable (Assigned)
Working Capital Term Loan	22/06/2020	Not Applicable	21/05/2024	0.70	ACUITE BB+/Stable (Assigned)

Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.47	ACUITE A4+ (Assigned)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	0.33	ACUITE BB+/Stable (Assigned)

Contacts

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