

Press Release

Innowave IT Infrastructures Limited

October 15, 2020

Rating Downgraded



| | |
|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs.48.00 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 the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB**' (read as **ACUITE double B**) and the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.48.00 crore bank facilities of Innowave IT Infrastructures Limited (IIL). The outlook is 'Stable'.

The rating downgrade is driven by a decline in revenues of the company resulting in stretched liquidity position and elongation of working capital cycle.

Innowave IT Infrastructure Limited (IIL) was incorporated in 1995 and is currently headed by Mr. Anant Raghute. The company is engaged in provided IT infrastructure, and staffing services to central, state (Maharashtra), local government and government entities.

Analytical Approach

Acuite has considered the standalone view of the financial and business risk profile IIL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

Mr. Anant Raghute has over a decade's experience in the IT industry. Prior to taking over the management of IIL, he has worked in various companies including HCL Technologies Electronic Data System and HP Enterprise Services. The extensive experience has helped the company build long term relations with customers including Municipal Corporation of Greater Mumbai, National Informatics Centre Services Inc., Urban Local Bodies in Maharashtra and HLL Lifecare Limited, among others.

Acuite believes that the company would continue to benefit from management experience in the industry and its established market presence over the medium term.

Weaknesses

• Declining scale of operations and no fresh orders in hand

The revenue of the company has declined by 31.50 percent to Rs.106.06 crore in FY2020 (Provisional) from Rs.154.72 crore in FY2019. Further, revenues registered for the period April, 2020 to September, 2020 stood at Rs.30.00 crore. The company hasn't received any fresh orders in the current financial year till date. The Profit after Tax (PAT) margin too has deteriorated significantly to 0.70 per cent in FY2020 (Provisional) from 1.26 per cent in FY2019. Nonetheless, the operating margins of the company have improved to 5.15 percent in FY2020 (Provisional) from 4.74 percent in FY2019.

Acuite believes that the ability of the company to ensure new orders in order to provide revenue visibility over the medium term will be key rating sensitivity.

• Working capital intensive operations

IIL has intensive working capital operations marked by high Gross Current Assets (GCA) of 442 days as on March 31, 2020 (Provisional) as against 300 days as on March 31, 2019. The high GCA days is dominated by an increase in debtors to 260 days as on March 31, 2020 (Provisional) as against 156 days as on March 31,

2019. The high debtors is primarily due to delay in payments from Govt. / Govt. entities. This has led to higher reliance on the external working capital borrowings, which were fully utilised for the past nine months ended September 2020.

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

Liquidity position: Stretched

IIIL has stretched liquidity position marked by high GCA Days of 442 days as on March 31, 2020 and near 100 percent utilization of working capital facilities. The NCA stood at Rs.1.39 crore vis-à-vis current maturities of Rs.0.43 crore. The stretched liquidity position is primarily caused due to delay in payments from clients. The cash and bank balance stood at Rs.1.05 crore as on March 31, 2020 (Provisional). The bank limit utilization of working capital facilities stands at near 100 percent for the 9 month period ended September 2020.

Rating Sensitivities

- Improvement of revenues while maintaining its profitability margins.
- Further deterioration in the working capital cycle leading to stress on the liquidity position.

Material Covenants

None

Outlook: Stable

Acuite believes that IIIL will maintain a stable outlook in the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 106.06 | 154.72 |
| PAT | Rs. Cr. | 0.74 | 1.95 |
| PAT Margin | (%) | 0.70 | 1.26 |
| Total Debt/Tangible Net Worth | Times | 0.57 | 0.57 |
| PBDIT/Interest | Times | 1.35 | 1.71 |

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>
- 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)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|---------------------------------|
| 29-Mar-2019 | Cash Credit | Long Term | 10.00 | ACUITE BB / Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 38.00 | ACUITE A4+ (Reaffirmed) |

| | | | | |
|-------------|----------------|------------|-------|----------------------------------|
| 20-Feb-2018 | Cash Credit | Long Term | 10.00 | ACUITE BB / Stable (Assigned) |
| | Bank Guarantee | Short Term | 38.00 | 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 |
|------------------------|------------------|----------------|----------------|----------------------------------|--|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BB- / Stable (Downgraded from ACUITE BB / Stable) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 38.00 | ACUITE A4 (Downgraded from ACUITE A4+) |

Contacts

| Analytical | Rating Desk |
|---|--|
| Aditya Gupta Vice President- Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in Aditya Sahu Analyst - Rating Operations Tel: 022-49294055 aditya.sahu@acuite.in | Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in |

About Acuité Ratings & Research:

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