

Press Release

Ace Software Solutions India Private Limited

May 21, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (**read as SMERA BB minus**) on the Rs.8.00 crore bank facilities of Ace Software Solutions India Private Limited. The outlook is '**Stable**'.

The Mumbai-based, Ace Software Solutions (India) Private Limited (Ace) was incorporated in 1974 by Mr. Parth Desai. Ace is engaged in providing software solutions/products for banking and financial crime compliance, particularly, for banks and large corporates. These agile solutions operate on the platform called 'Pelican' that has a unique combination with Artificial Intelligence (AI) powered by Natural Language Processing and machine learning. Pelican is further categorized as Pelican Secure (helps in Payment fraud detection for financial institutions, evolving anti-money laundering compliance) Pelican Fast (assists in immediate payments functionality while providing quick access to real-time transactions) and Pelican Payment (enables organizations to benefit from intelligent payment management). Ace functions under the brand name 'Pelican'.

Key Rating Drivers

Strengths

• Experienced Management:

Ace (Pelican), founded by Mr. Parth Desai who possess experience of over three decades in the Information Technology. Parth Desai graduated from Georgia Tech with a Master's degree in Artificial Intelligence and was quickly hired to work with one of the most celebrated global pioneers of Artificial Intelligence, Roger Schank. Mr. Desai rapidly built a deep expertise in AI and Natural Language Processing (NLP) that has driven his own ability to innovate over the past two decades. During that time, Mr. Desai built a global team and nurtured their collective AI expertise.

Working collaboratively within the Banking, Financial Services and Insurance domain for banks and corporates, Mr. Desai has built a thorough understanding of the Payments, Securities, Anti Money Laundering and Risk Management from both the business and technology viewpoints. As Founder & CEO, Mr. Desai works closely with his global team to deliver consistent innovation and client value that continues to underpin their long-term client relationships.

Mr. Desai is assisted by Senior Professional Team across the verticals of product development, sales, operations and service delivery. The team is well experienced in treasury, payment processing, innovative payment system, anti-money laundering, fraud detection, sanction compliance among others to make Pelican platform more robust and innovative.

Ace has a development center in Mumbai and team works on software development for payment transfers, fraud detection among others; and all its software sales are to its group entity - Ace Software Solutions Inc., USA (Ace Inc.). The group has its offices across New York, London, Netherlands, Dubai, Mumbai and Hong Kong.

The extensive experience of the team helped Ace in associating with global Banking majors like Standard Chartered Bank, Wells Fargo, TD Bank - USA, NIBC Bank - Netherlands among others for providing seamlessly integrated products / services through Ace Inc. Further, Ace has supplied its product in India to ICICI Bank, SBI and IDFC Bank among others. SMERA believes that Ace's business risk profile continues to benefit from the experienced management.

- **Above average financial risk profile:**

Ace's financial risk profile is marked by healthy gearing and above-average debt protection metrics though underpinned by modest net-worth. The gearing (debt-to-equity) is healthy at 0.44 times as of March 31, 2017; it has a meager debt of about Rs.1.87 crore of working capital borrowing and its net-worth is Rs.4.17 crore. Ace has proposed to under-take moderate capital expenditure (capex) of about Rs.4.5 crore for renovation of office premises which is fully debt-funded; despite the proposed capex, the gearing is expected to be comfortable at about 1.0 time over the medium term. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are comfortable at 2.3 times and 0.12 times for FY2017. SMERA believes that the financial risk profile of Ace is expected to be above-average over the medium term backed by efficient working capital management at about 70 days, and conservative debt profile.

Weaknesses

- **Modest scale of operations:**

The operations of Ace are considered to be at modest level despite the company being in business for more than four decades. Ace has reported revenues of about Rs.23.5 crore on provisional basis for eleven months through February, 2018. It has reported revenues of Rs.21.5 crore for FY2017. The modest revenues are attributed to sector specific product- banking related, low levels of penetration particularly in Indian and Asian market and low customer base. Though the revenues are expected to improve to above Rs.30.00 crore over the medium term, SMERA believes that the revenues of Ace are likely to be at modest level compared to the players in the IT services industry, and skewed towards one segment.

- **Customer concentration risk:**

Ace is exposed to customer concentration risk, as the company derives 99 percent of its revenue from a single customer i.e. Ace Software Solutions Inc., USA thereby affecting the profitability margins. Operating margins are so weak and volatile in the range of 2.1 - 3.1 percent over the past three years through FY2017. SMERA believes that the margins of Ace are expected to be at low levels considering the high employee cost, modest scale of operations, besides the entire product/services are to its group concern.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Ace to arrive at the rating.

Outlook: Stable

SMERA believes that Ace 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. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenue growth, sharp decline in profitability margins or significant deterioration in the financial risk profile arising out of debt-funded capital expenditure.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	21.53	16.43	14.60
EBITDA	Rs. Cr.	0.46	0.45	0.45
PAT	Rs. Cr.	0.14	0.12	0.13
EBITDA Margin	(%)	2.14	2.75	3.11
PAT Margin	(%)	0.66	0.74	0.92
ROCE	(%)	5.61	5.09	9.52
Total Debt/Tangible Net Worth	Times	0.44	0.72	0.71
PBDIT/Interest	Times	2.29	2.20	2.81
Total Debt/PBDIT	Times	4.04	6.57	6.27
Gross Current Assets (Days)	Days	70	119	137

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

None

Any other information:

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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>

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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.25	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.53	SMERA BB- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.22	SMERA BB- / Stable

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ABOUT SMERA

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