

Press Release

Ace Software Solutions India Private Limited

September 06, 2019

Rating Downgraded



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs 8.00 crore bank facilities of Ace Software Solutions India Private Limited (ASPL). The outlook is '**Stable**'.

The downgrade reflects expected deterioration in liquidity position marked by modest net cash accruals against repayment obligations. The net cash accruals are expected to be in range of Rs 0.76 crore –Rs. 0.88 crore during FY2018-2021 as against repayment obligation of Rs 1.13 crore in the same period.

The ratings continue to reflect the promoters' extensive experience in IT industry and comfortable working operations. These strengths are partially offset by thin profitability margins and customer concentration.

Mumbai-based, Ace Software Solutions (India) Private Limited (ASPL) was incorporated in 1974 by Mr. Parth Desai. ASPL is engaged in providing software solutions/products for banking and financial crime compliance operated on the platform called 'Pelican'.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of ASPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

ASPL was founded by Mr. Parth Desai, who possesses experience of over three decades in the Information Technology. Mr. Parth Desai graduated from Georgia Tech with a Master's degree in Artificial Intelligence. Mr. Desai is assisted by Senior Professional Team across the verticals of product development, sales, operations and service delivery. The team has extensive 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. ASPL has a development center in Mumbai and the 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 has helped Ace in associating with global Banking majors such as Standard Chartered Bank, Wells Fargo, TD Bank - USA, NIBC Bank - Netherlands among others. Further, Ace has supplied its product in India to ICICI Bank, SBI and IDFC Bank among others.

Acuité believes that ASPL's business risk profile will continue to benefit from the its experienced management.

Weaknesses

• Modest scale of operations and thin profitability margin

ASPL operations are at modest level despite the company being in business for more than four decades. The operating revenues stood at Rs. 24.19 crore in FY2018 as against Rs 21.53 crore in FY2017. Further the company has reported revenue of Rs 26.60 crore in FY2019 (P). 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 over the medium term, the revenues of ASPL are expected to remain at modest level compared to the players in the IT services industry, and skewed towards one segment. Ace is exposed to customer concentration risk, as the company derives 99 per cent of its revenue from a single customer i.e. Ace Software Solutions Inc., USA, thereby affecting the profitability margins. The operating margins stood at 2.07 per cent in FY2018 as against 2.14 per cent in FY2017. The profitability is expected to improve in the medium term with the ASPL outsourcing software development and moderation in employee cost.

• Moderate financial risk profile

ASPL's financial risk profile is marked by modest net worth, deterioration in gearing and average debt protection metrics. The net worth stood at Rs 4.45 crore in FY2018 as against Rs 4.31 crore in the previous year. The gearing is expected to deteriorate in FY2018-2019 on account of capex undertaken of about Rs.4.50 crore for renovation of office premises, which is fully debt-funded. The gearing is expected to be about 1.0 times over the medium term. Debt protection metrics is expected to deteriorate on account of modest net cash accruals against repayment obligation in the medium term. Interest coverage ratio stood at 4.22 times in FY2018 as against 2.29 times in the previous year. However, Acuite believes that the financial risk profile of ASPL will continue to be supported by its promoter in the medium term.

Liquidity Position

The liquidity profile is expected to be stretched marked by modest net cash accruals as against debt repayment obligations. The net cash accruals are expected to be in range of Rs 0.76 crore –Rs. 0.88 crore during FY2018-2021 as against repayment obligation of Rs 1.13 crore in the same period. The working capital cycle is efficient, marked by Gross Current Assets (GCA) of 60 days as on 31 March, 2018. The bank limit utilisation stood at 86.46 per cent for the past 6 months ended June 2019. Acuite believes that the liquidity of the company is likely to remain a key monitorable.

Outlook: Stable

Acuite believes that the firm will maintain a 'Stable' outlook over the medium term owing to its promoter's extensive experience. The outlook may be revised to 'Positive' in case of higher than expected increase in revenue profile and profitability and improvement in liquidity position. Conversely, the outlook may be revised to 'Negative' in case of deterioration in their financial risk profile or further stretch in liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16(Actual)
Operating Income	Rs. Cr.	24.19	21.53	16.43
EBITDA	Rs. Cr.	0.50	0.46	0.45
PAT	Rs. Cr.	0.14	0.14	0.12
EBITDA Margin	(%)	2.07	2.14	2.75
PAT Margin	(%)	0.56	0.66	0.74
ROCE	(%)	5.44	5.61	5.09
Total Debt/Tangible Net Worth	Times	0.29	0.44	0.72
PBDIT/Interest	Times	4.22	2.29	2.20
Total Debt/PBDIT	Times	2.54	4.04	6.57
Gross Current Assets (Days)	Days	60	70	119

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-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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. Crore)	Ratings/Outlook
19-July-2019	Cash Credit	Long Term	3.25	ACUITE BB-/Stable (Indicative)
	Term Loan	Long Term	4.53	ACUITE BB-/Stable (Indicative)
	Proposed Bank Facility	Long Term	0.22	ACUITE BB-/Stable (Indicative)
21-May-2018	Cash Credit	Long Term	3.25	ACUITE BB-/ Stable (Assigned)
	Term Loan	Long Term	4.53	ACUITE BB-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	0.22	ACUITE BB-/ Stable (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.25	ACUITE B+/- Stable (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.53	ACUITE B+/- Stable (Downgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.22	ACUITE B+/- Stable (Downgraded)

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About Acuite Ratings & Research:

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