

Press Release

E Centric Solutions Private Limited

July 09, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 29.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs. 29.00 crore of E Centric Solutions Private Limited (ECS). The outlook is '**Stable**'.

E Centric Solutions Pvt Ltd (ECS), incorporated in 2002, is a Hyderabad-based company promoted and managed by Mr. G Sridhar Raju. ECS is engaged majorly in providing end-to-end IT and Non-IT staffing solutions to government entities and corporates. It is also engaged in e-governance projects in India and off-shoring solutions ranging from strategy consulting, business analysis, project management, software development, software implementation, maintenance and support among others.

Key Rating Drivers

Strengths

Established track record and healthy order book position

Started in 2002, it has been in IT staffing solutions segment for more than a decade now. ECS started as an offshore developer, then diversified into e-governance and IT staffing solutions provider to only government entities, and became an empaneled vendor for 'National Informatics Centre' in India in FY2015. The company later expanded by providing services to non-government companies i.e. to MNCs, corporates, mostly fortune 500 companies. In FY16, it started providing non-IT staffing solutions i.e. general staffing. This has led to wide customer base of more than 50 customers.

The revenue stream of ECS is well spread across both in terms of sector-wise (IT, Non-IT and Govt and Non-Govt) and business-wise. It gets around 34 percent from Non-Govt IT, 29 percent from Govt IT, 18 percent from non Govt Non IT and remaining from exports and others. It presently has around 3500 active employees deployed for projects under Govt IT, ~4000 under Non-govt-IT and 3000 under non-Govt non-IT with overall staffing of about 10,500 as of March 31, 2018 on provisional basis.

Well spread revenue and business segment yielded results in terms of improving revenues at a compound annual growth rate (CAGR) of 25 percent over the last three years ending March, 2018. The major clientele includes National Sample Survey Office, National Informatics Centre Services Inc, Medidata Solutions Inc, Accenture, NBCC India Ltd., Wipro, Deloitte among others with no major revenue concentration of over 15 percent. ECS's revenue visibility is further accentuated by healthy order book of about Rs.290-330 crore as on April 01, 2018 to be executed in FY2019, thereby providing strong revenue visibility.

Acuité believes that the company's established track record and healthy order book would aid the business risk profile over the medium term.

Healthy financial risk profile

ECS's gearing (debt-to-equity) has remained strong at 0.5 times over the past three years ending March, 2018 despite debt funded capex of Rs.10.00 crore undertaken for the smart city implementation segment in FY2016. The gearing is strong at 0.37 times as on March, 2018 (Provisional). Strong gearing is marked by healthy net worth of Rs.71.13 crore (Provisional) as on March, 2018 (Provisional) as against total debt of Rs.26.63 crore consists of working capital borrowing of Rs.18.30 crore, long-term debt of Rs.8.24 crore and unsecured loan from directors of Rs.0.10 crores. It has generated cash accruals of about Rs.5.00 crore in FY2018 on provisional basis. The cash accruals are expected to be in the range of Rs.7.00-10.0 crore over the medium term against repayment obligations of below Rs.2.00 crore per annum. ECS's debt protection metrics are comfortable with net cash accruals to total debt and interest coverage of 0.19 times and 3.05 times in FY2018 (Provisional) vis-à-vis 0.16 times and 2.36 times in FY2017. With improving topline underpinning higher net cash accruals, the financial risk profile continues to be healthy over the medium term.

Weakness

Declining EBITDA margins

EBITDA margins have been marginally declining from 12.83 percent in FY2016 to 7.87 percent in FY2018 (Provisional). Reasons for the same are focus on segments which are high volume provider like E-governance, smart city implementation and non-Govt non-IT segments. E-governance, non-Govt non-IT and others (including smart city implementation) contributed around 20-30 percent to total revenues in FY2018 (Provisional). Segments like E-governance and non-Govt non-IT are comparatively low margin segments i.e these segments have other expenses like scanning, digitisation in addition to employee deployment cost lead to fall in EBITDA margins. Also, the initial variable of cost related to these segments has dented EBITDA margins in FY2017 and FY2018 which are expected to be lower over the medium term. Acuité believes that EBITDA margins are sustainable at 8.0 - 8.50 percent over the medium term.

Improving yet intensive working capital cycle and prudent cash flow management

Change in revenue mix despite lower EBITDA margins is one of the reasons for focus on more of Non-Govt IT, Non-Govt Non-IT and others which lead to sustained growth in revenues; while improving receivable cycle from 188 days in FY2016 to 120 days (Provisional) as on March, 2018. Despite improvement in working capital cycle, it continues to remain intensive with Gross Current Assets of 120 days as of March, 2018. As of March 31, 2018, its outstanding receivables are about Rs.53.90 crore; of which, about Rs.38.10 crore (~70 percent) is in the ageing of below 90 days, about Rs.10.10 crore (~19 percent) in 90-120 days and Rs.5.70 crore (~11 percent) for over 120 days. This also depicts gradual shift towards high cash flow generating and low working capital intensive segment, wherein the salary to the staffing employee is released only after payment is released by the client (collect and pay model). The gradual shift in revenue mix has supported in minimizing its reliance on external borrowings which remained at Rs.19.00 crore, despite growth in revenues by 78 percent over FY2016; the limits have been highly utilised at about 94 percent over last 12 months through April 2018. However, healthy Debt-EBIDTA of 1.96 times in FY2018 gives adequate room for financial flexibility in case of need. Acuité believes that with more contribution from Non-Govt IT and non-Govt non-IT, the receivables management would improve further over the medium term.

Analytical Approach

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

Outlook: Stable

Acuité believes that ECS will maintain a 'Stable' outlook and continue to benefit over the medium term owing to its established track record and diverse presence across segments. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any significant decline in its profitability, or any further support to its subsidiaries or deterioration in the working capital management leading to pressure on the liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	164.09	132.02	92.19
EBITDA	Rs. Cr.	12.91	10.98	11.82
PAT	Rs. Cr.	2.31	1.41	3.32
EBITDA Margin	(%)	7.87	8.32	12.83
PAT Margin	(%)	1.41	1.07	3.60
ROCE	(%)	11.29	9.10	10.36
Total Debt/Tangible Net Worth	Times	0.37	0.38	0.48
PBDIT/Interest	Times	3.05	2.36	2.86
Total Debt/PBDIT	Times	1.96	2.24	2.60
Gross Current Assets (Days)	Days	169	193	277

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

India Ratings and Research (Ind-Ra) via its press release dated May 17, 2018 has migrated E-Centric Solutions Private Limited's (ECSPL) Long-Term Issuer Rating to the non-cooperating category i.e 'IND BBB(ISSUER NOT COOPERATING)' as the issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency.

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.acuite.in/criteria-default.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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	19.00	ACUITE BBB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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