Press Release

E Centric Solutions Private Limited

July 18, 2019

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed 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 bank facilities of E Centric Solutions Pvt Ltd. The outlook is **'Stable'**.

The rating re-affirmation factors in performance in line with expectations, adequate revenue visibility, healthy financial risk profile and experienced promoters; however, it is partly constrained by working capital intensive operations and volatile profitability.

E Centric Solutions Pvt Ltd (ECS), incorporated in 2002, is a Hyderabad-based company promoted and managed by Mr. G Sridhar Raju along with his family members. 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.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of ECS to arrive at the rating.

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. Well spread revenue and business segment yielded results in terms of improving revenues at a compound annual growth rate (CAGR) of 42 percent over the last three years ending March, 2019. The major clientele includes Larsen & Toubro Limited (Goa), National Sample Survey Office, Medidata Solutions Inc, National Informatics Centre Services Inc, Deloitte Support Services India Pvt. Ltd, Wipro Limited 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.465 crore as on April 01, 2019 to be executed in FY2020-21, thereby providing adequate revenue visibility. Acuité believes that with regular client addition, adequate order book and promoters experience is expected to support in improving its business risk profile over the medium term.

Healthy financial risk profile

ECS's financial risk profile is marked by comfortable net worth and gearing (debt-to-equity), comfortable total outside liabilities to total net worth (TOLTNW) and debt protection metrics. ECS's net worth is healthy at Rs.81.35 crore as on March 31, 2019 (provisional) as compared to Rs.72.41 crore as on March 31, 2018. Gearing is healthy at 0.54 times as on March 31, 2019 as compared to 0.52 times in FY2018. TOL/TNW is comfortable at 1.29 times in FY2019 vis-à-vis 1.09 times in FY2018. ECS's debt protection metrics are comfortable with net cash accruals to total debt and interest coverage of 0.27 times and 3.32 times in FY2019 (Provisional) vis-à-vis 0.20 times and 2.68 times in FY2018. With comfortable cash accruals expected in the range of Rs.9 – 12 crore over the medium term, against repayment obligations of about Rs.2-2.50 crore and moderation in capex to about Rs.1.00 crore per annum are expected to support in improving its debt protection metrics and financial risk profile over the medium term.

Weaknesses

Working capital intensive operations

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 134 days (Provisional) as on March, 2019. Despite improvement in working capital cycle, it continues to remain intensive with Gross Current Assets of 166 days as of March, 2019. As of March 31, 2019, its outstanding receivables are about Rs.97.04 crore; of which, about Rs.40.21 crore (~40 percent) is in the ageing of below 90 days, about Rs.10 (~11 percent) in 90-120 days and Rs.47 crore (~49 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; the limits have been highly utilised at about 95 percent over last 6 months through March 2019. However, Debt-EBIDTA of 2.62 times in FY2019 (provisional) gives adequate cushion 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.

Declining EBITDA margins:

EBITDA margins have been marginally declining from 8.32 percent in FY2017 to 6.27 percent in FY2019 (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, nonGovt non-IT and others (including smart city implementation) contributed to around 30 percent to total revenues in FY2019 (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. Acuité believes that EBITDA margins are sustainable at 6.00 - 7.00 percent over the medium term.

Revenues from E-governance segment:

ECS's revenue mix has been changing with revenue from staffing vertical coming down from 77 percent to 60 percent during March, 2019 and same period ECS has high dependency on E-governance projects which has long gestation period and elongated debtor cycle.

Liquidity position

ECS's liquidity position is adequate marked by comfortable net cash accruals to its maturing debt obligations. ECS generated cash accruals of Rs.4.22-11.98 crore during the last three years through 2018-19. ECS's cash accruals are estimated to remain around Rs.9-12 crore during 2020-22, while its repayment obligations are estimated to be around Rs.2-2.5 crore with modest regular capex of about Rs.1.00 crore; gives adequate comfort for the incremental working capital requirements for the growing scale of operations. ECS's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 166 in FY 2019(Provisional). Its cash credit limits were highly utilised at about 95 percent during the last six months period ended May 2019. The current ratio of ECS is comfortable at 1.50 times as on March 31, 2019. Acuité believes that liquidity profile of ECS continues to be adequate on account of comfortable cash accrual and minimal repayment obligations, though partly constrained by working capital intensive operations.

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 working capital management. 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	264.37	173.30	132.02
EBITDA	Rs. Cr.	16.98	11.56	10.98
PAT	Rs. Cr.	9.00	4.49	1.41
EBITDA Margin	(%)	6.42	6.67	8.32
PAT Margin	(%)	3.40	2.59	1.07
ROCE	(%)	12.03	9.39	9.10
Total Debt/Tangible Net Worth	Times	0.54	0.52	0.38
PBDIT/Interest	Times	3.32	2.68	2.36
Total Debt/PBDIT	Times	2.56	3.00	2.24
GrossCurrent Assets (Days)	Days	166	194	193

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
- Service Sector Entities - https://www.acuite.in/view-rating-criteria-8.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
09-July-2018	Cash Credit	Long Term	19.00	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (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	19.00	ACUITE BBB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:
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