

Press Release

E Centric Solutions Private Limited

July 28, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.42.00 Cr. (Enhanced from Rs.29.00 Cr.)
Long Term Rating	ACUITE BBB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.42.00 crore bank facilities of E Centric Solutions Private Limited (ECS). The outlook is '**Stable**'.

The rating re-affirmation factors in extensive experience of the promoter, adequate revenue visibility, and healthy financial risk profile. The ratings, however, remain constrained by working capital intensive operations, exposure to intense competition, and volatility in a scale of operations.

E Centric Solutions Private Limited (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 and smart city projects in India. ECS has 10 branch offices across India with an employee base of around 4500 as on 31st March, 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

- Extensive industry experience of the promoters, established track record, and healthy relationships with customers**

ECS started in 2002, it has been in the IT and Non-IT solutions segment for nearly two decades. The promoter Mr. Gadhi Sridhar Raju is highly qualified business professional who has over two decades' experience in the staffing business. ECS' successful track record, coupled with its diverse service offerings, helped it efficiently source and mobilise large manpower and establishing a wide customer base several reputed private corporate, MNCs as well as government departments/entities of various states. This supports the company's revenue stream and strengthens its operational profile. The major clientele includes Larsen & Toubro Limited (Goa), National Sample Survey Office, Medidata Solutions Inc, National Informatics Centre Services Inc, Bharat Electronics Limited, Sterlite Technologies Limited, Terra CIS Technologies Ltd among others. ECS's revenue visibility is further accentuated by a healthy order book of about Rs.490 crore as on April 01, 2020 to be executed in FY2021-22, thereby providing adequate revenue visibility.

Acuité believes that with regular client addition, adequate order book, the extensive experience of the promoters and established relationship with clients should continue to support the business risk profile over the medium term.

- Healthy financial risk profile**

ECS's financial risk profile is healthy, marked by a healthy networth, low gearing and healthy debt protection metrics. ECS's networth is healthy estimated at around Rs.102.32 crores as on March 31, 2020 (provisional). The networth levels have seen significant improvement over the last three years through FY 2020 (provisional) on account of healthy accretion to reserves during the same period. The company has followed a conservative financial policy in the past, the same is reflected through its gearing and total

outside liabilities to tangible networth (TOL/TNW) levels of 0.29 times and 0.83 times as on March 31, 2020 (provisional) vis-à-vis 0.48 and 1.22 times as on March 31, 2019.

Debt protection metrics were comfortable, with interest coverage at 3.15 times and net cash accrual to total debt ratio at 0.40 times in FY2020 (provisional) vis-à-vis 6.27 times and 0.54 times respectively in FY2019. The ECS generated cash accruals of Rs.7 to 11 crore during the last three years through 2019-20 (provisional), while its maturing debt obligations were in the range of Rs.2.50-4.50 crore over the same period. The cash accruals of the company are estimated to remain around Rs.10 - 12 crore during 2019-21 while their repayment obligations are estimated to be around Rs.2.00-3.50 crore.

Acuité believes that the financial risk profile of the company is expected to remain healthy over the medium term on account of no significant capex plans over the medium term.

Weaknesses

- **Volatility in the scale of operations**

Revenues of the company declined about 30 percent from Rs.277.29 crore in FY2019 to Rs.195.24 crore in FY2020 (provisional) majorly on account of sale of IT staff division and substantial declined business from Government staffing division. Though the revenues are declined, company is able to improve its operating margin from 6.46 percent in FY2019 to 11.55 percent in FY2020 (provisional) due to major focus Non-It staffing and smart city projects. The manpower service industry is highly fragmented, with a large number of unorganised players in the domestic market offering services at low costs. Players in this industry face high attrition, driven by intense competition to poach skilled and trained manpower. Revenue will remain susceptible to intense competition even with moderate growth over the medium term. While the current outbreak of Covid-19 globally is expected to impact the Manpower industry to a certain extent, the exact impact of the same is yet to be ascertained.

Acuité believes that the ability of the company to increase the scale of operations while maintaining its profitability levels would be the key rating sensitivity factor over the medium term.

- **Moderate working capital operations**

The company has intensive working capital operations as evident from its Gross Current Assets (GCA) of 238 days as on FY2020 (provisional) as against 189 days as on FY2019. This is mainly because of stretched receivables 119-145 days over the last three years through fiscal 2020 (provisional). Due to ECS entered into smart city projects such as GMDA, Imphal, Kochi, and Saharanpur Smart Cities. Hence, GCAs are expected to increase over the medium term. Additionally, the working capital cycle is susceptible to delay in payments, especially from government agencies. Its working capital limits are utilised at 91 percent over the past 6 months ended June 2020.

Acuité believes that the operations of the ECS to remain working capital over the medium term and improving working capital management will be a major sensitivity factor.

Liquidity Position: Adequate

Company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. ECS generated cash accruals of Rs.7 to 11 crore during the last three years through 2019-20 (provisional), while its maturing debt obligations were in the range of Rs.2.50-4.50 crore over the same period. The cash accruals of the group are estimated to remain around Rs.10 - 12 crore during 2019-21 while their repayment obligations are estimated to be around Rs. 2.00-3.50 Crore. The ECS's operations are highly working capital intensive as marked by Gross Current Asset (GCA) days of 238 in FY 2020 (Provisional). This has led to high reliance on working capital borrowings, the working capital limits utilized at 90 percent during the last 6 months period ended in June 2020. The ECS maintains unencumbered cash and bank balances of Rs.3.24 crore as on March 31, 2020 (provisional) is usually maintained to meet any exigency. The current ratio of the ECS stands healthy at 1.63 times as on March 31, 2020 (provisional). Acuite believes that the liquidity of the ECS is likely to remain adequate over the medium term on account of healthy cash accrual and no major large debt-funded capex over the medium term.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Improvement in working capital management and liquidity position
- Any large debt-funded capex or Large, unexpected funding support extended to group entities

Material covenants

None

Outlook: Stable

Acuité believes that ECS will continue to benefit over the medium term due to extensive experience of its promoter, and healthy financial risk profile. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while improving its profitability and working capital intensity. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or significant volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile or a substantial increase in receivable collection period or any large debt-funded capex or further large, unexpected funding support extended to group entities.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	195.24	277.29
PAT	Rs. Cr.	8.69	20.63
PAT Margin	(%)	4.45	7.44
Total Debt/Tangible Net Worth	Times	0.29	0.48
PBDIT/Interest	Times	3.15	6.27

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>
- Infrastructure Sector Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Entities In Services 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
18-July-2019	Cash Credit	Long Term	19.00	ACUITE BBB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Reaffirmed)
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	20.00 (Enhanced from Rs.19.00 Cr.)	ACUITE BBB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	22.00 (Enhanced from Rs.10.00 Cr.)	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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