Press Release

E Centric Solutions Private Limited

July 14, 2021

Rating Upgraded

Total Bank Facilities Rated*	Rs. 42.00 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A2 (Upgraded)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded its long term rating to **'ACUITE BBB+' (read as ACUITE triple 'B plus')** from **'ACUITE BBB' (read as ACUITE triple 'B')** and the short term rating to **'ACUITE A2' (read as ACUITE A two)** from **'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'**.

Reason for rating upgrade

The rating upgrade is primarily driven by the sustained scale of operations marked by the improvement in the profitability margins and financial risk profile of the company. ECS has been able to sustain its operations in the FY2021 on the back of continuous and repetitive orders from the smart city projects and has recorded operating income of Rs.269.08 Cr in FY2021 (Prov) as against Rs.202.73 Cr in FY2020. Despite the slowdown in economy during the FY2021 due to the outbreak of Covid-19 pandemic, ECS has remained resilient and maintained its profitability margins and recorded operating profit (EBITDA) margin and net profit margin at 10.75 per cent and 4.28 per cent respectively in FY2021 (Prov) as against 10.14 percent and 2.77 per cent, respectively, in FY2020. Besides, there is an improvement in overall financial risk profile on account of moderate net worth, gearing and improving debt-coverage indicators. Net worth stood comfortable at Rs.110.75 Cr as on March 31, 2021 (Prov) as against Rs.99.24 Cr as on March 31, 2020. Gearing deteriorated marginally to 0.35 times as on March 31, 2021 (Prov) from 0.29 times as on March 31, 2020 on account of increase in short term debt. There has been improvement in interest coverage ratio to 3.52 times as on March 31, 2021 (Prov) as against 2.97 times as on March 31, 2020 and debt service coverage ratio to 1.92 times as on March 31, 2021 (Prov) as against 1.05 times as on March 31, 2020. Howbeit, the working capital management of the company is intensive in nature as evident from GCA days of 328 days on account of high debtors days during the same period, thereby, resulting in higher dependence on working capital limits with average utilization being as high as ~95 percent.

About the Company

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 7000 as on 31st March, 2021.

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 order book providing near term revenue visibility**

Started as a private limited company by Mr. Gadhi Sridhar Raju, Gadhi Annapurna Venkata and Rudraraju Prasada Raju Venkata Vara in 2002, ECS's management has nearly 2 decades of experience in IT industry, primarily in Software and Web Application Development. ECS's successful track record in both IT and Non-IT solutions segment, coupled with its diverse service offerings, helped the company to efficiently source and mobilise large manpower and aided in establishing a wide customer base with several reputed private corporates, MNCs as well as government departments/entities of various states. 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 Limited, SRIT India Private Limited among others. ECS's revenue visibility is further accentuated by a healthy unexecuted order book of about Rs.524.77 Cr as on March 31, 2021 to be executed in FY2022 and FY2023, thereby providing adequate revenue visibility. Acuité believes that the promoter's extensive industry experience and established relationships with its customers and suppliers and healthy unexecuted order book will aid ECS's business risk profile over the medium term.

- **Moderate growth in sales and improvement in profitability**

ECS's performance in terms of sales has improved by nearly 32.73 percent from FY2020 to FY2021 (Prov) majorly on account of increase in operations in the Smart city business segment. The company secured order from government for smart city development projects. The absolute EBITDA grew from 20.56 Cr to 28.93 in FY2021 (provisional) due to smart city development project works. The revenues of the company depend on the revenue mix from the segments. In FY2021 the company has focused more on Smart city implementation where the margins are higher than other segments. Further, in FY2021 (Prov), the EBITDA margin of the company has improved to 10.75 per cent against 10.14 per cent in FY2020. The increase in profitability is on account of higher number of smart cities project executed in same period, as in smart city segment the company does not have to bear high employee cost and require nearly 40 staff members to complete the orders compared to the requirement of 150 staff members in staffing segment. The requirement is low on account of presence of additional monitoring entity with its own staff for work completion and monitoring. Acuité believes that the addition and timely execution of smart city projects will continue to aid ECS's business risk profile over the medium term.

- **Above-average debt protection metrics and capital structure**

ECS's financial risk profile is above-average, marked by a moderate networth and gearing along with above-average debt protection metrics. The EBITDA margins of the company improved to 10.75 per cent in FY2021 (Prov) against 10.14 in FY2020. The improvement is attributable to increase in operations of the company in comparatively high margins smart city projects during the period. The healthy profitability levels have led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 3.52 times and 1.92 times respectively in FY2021 (Prov) as against 2.97 and 1.05 times respectively in the previous year.

The net worth of the company stood at Rs.110.75 Cr as on 31 March, 2021 (Prov) as against Rs.99.24 Cr as on 31 March, 2020. This improvement is on the account of healthy accretion to reserves. The gearing level (debt-equity) stands marginally deteriorated at 0.35 times as on 31 March, 2021 (Prov) as against 0.29 times as on 31 March, 2020, the deterioration is on the significant increase in short term debt due to high dependence on working capital banking lines by the company during the same period. TOL/TNW (Total outside liabilities/Total net worth) has deteriorated and stands at 1.62 times as on 31 March, 2021 (Prov) against 1.20 times in previous year. High TOL/TNW is on account of increase in trade payables to Rs.59.48 Cr as on 31 March 2021 (Prov) against Rs.38.91 Cr in previous year.

The total debt of Rs.38.74 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.6.08 Cr, short term debt of Rs.28.79 Cr and maturing portion of long term borrowings of Rs.3.87 Cr. NCA/TD (Net cash accruals to total debt) stands moderate at 0.39 times in FY2021 as against 0.31 times in FY2020. Acuité expects the financial risk profile to remain above-average over the medium to long term period on account of moderate capital structure and stable operations of the company.

Weaknesses

- **Working capital operations marked by high GCA days; Presence of high debtors in FY2021**

ECS's working capital cycle is marked by high gross current assets (GCA) days in the range of 189-328 days over the last 3 years ending March 31, 2021(Prov). The GCA days are majorly marked by high debtor days. The elevated GCA days as on March 31, 2021 (Provisional) is on account of presence of high debtors amounting to nearly Rs.191.84 Cr. ECS has entered to smart city segment projects and has to deal with the customers like GMDA, IMPHAL, Kochi and Saharanpur smart cities. The average debtor days in usual smart city projects are 100-150 days. Further, it can be observed from the debtor's ageing of ECS that out of the total debtors of Rs. 191.84 Cr as on March 31st, 2021 (Prov), around Rs.45.04 Cr belongs to receivables with ageing more than 180 days. Out of the Rs.45.04 Cr, ECS has received the payment of Rs. 20.62 Cr as of June, 2021 and Rs. 4.00 Cr is expected to be released in next 1-2 months. The debtors were also stretched in FY2021 as compared to past financial years on account of Covid-19 pandemic and huge portion of work done billed in the month of march leading to high debtors as of March 31, 2021. The inventory days and debtor days were at 33 days and 260 days, respectively, as on March 31, 2021 (Provisional). These are partially offset by high creditor days at 199 days as on March 31, 2021 (provisional). The high GCA cycle has led to high utilization of more than 95 per cent of working capital requirement bank lines of Rs.26.00 Cr over the past 12 months ending May, 2021. Acuité believes that the operations of the company will remain high working capital intensive on account of expected high level of debtors due to the company's increasing venture into government funded smart city projects.

• Presence of moderate customer and segmental concentration risk on the revenue profile
ECS, over the past had been increasing its operations in executing work majorly for Smart cities projects. In FY2021, the company has been working on five smart cities projects and has contributed towards 56 per cent of total sales from this segment during the same period. Out of total unexecuted order value of Rs.524.77 Cr as of 31st March 2021, Smart city projects has major concentration on the revenue profile with contribution of 71.40 per cent. ECS's top 10 customers have contributed towards more than 60 per cent of total sales in FY2021 (Prov), thereby indicating customer concentration risk on the revenue profile. It can be observed that the contribution from a single customer has been more than 20 per cent in a given financial year, thereby, leading to customer concentration risk. Acuité believes that ECS has moderate towards its revenue profile in terms of segmental and customer concentration. However, ECS undertakes smart city projects which are supported by budget allocation to state/central government. This ensures consistency in revenues and receivables along with better operating margins and with presence of well reputed and renowned customer profile, the concentration risk is expected to be mitigated to an extent.

• Susceptibility to volatility in the scale of operations
Revenues of the company declined nearly by 27 per cent from Rs.277.29 Cr in FY2019 to Rs.202.73 Cr in FY2020 and increased by nearly 33 per cent to Rs.269.08 Cr in FY2021 (Prov), majorly on account of fluctuations in revenue from different business segment. 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. However, addition and increase in executing orders pertaining to smart city projects will mitigate the risk to an extent over the medium term. 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.

Liquidity Position: Adequate
ECS's liquidity is adequate marked by moderate generation of net cash accruals in FY2021 to its maturing debt obligations, moderate level of unencumbered cash and bank balance and high bank limit utilization. The company has generated cash accruals in the range of Rs.9.02-23.84 Cr during last three years ending FY2021(Prov) as against its long term debt obligations of Rs.2.41-3.42 Cr for the same period. The company's working capital is intensive as evident from Gross Current Asset (GCA) of 328 days as on March, 2021(Prov) as compared to 286 days as on March, 2020. The elevated GCA days as on March 31, 2021 (Provisional) is on account of presence of high debtors amounting to nearly Rs.191.84 Cr. The current ratio stood at 1.36 times as on 31 March 31 2021(Prov) against 1.39 in previous year and the fund based limit remains utilized at nearly 95.00 percent over the 12 months ended May, 2021. The company maintained unencumbered cash and bank balances of Rs.6.75 Cr as on 31 March 31 2021(Prov) against Rs.6.75 Cr in previous year. ECS in FY2021 has to avail temporary overdraft facility of Rs.2.00 Cr to meet its working capital requirement due to the intensive nature of working capital requirements in smart city project segment. ECS has also availed ECLGS facility as a WCTL of amount Rs.3.00 Cr during the pandemic. The company's management has also decided to discontinue the working capital facility of Rs.6.00 Cr with the respective banking institution on account of reduction in staffing solution business segment. Acuité believes that the liquidity of the company is likely to improve over the medium term on account of healthy order book and increasing scale of operations and expected improvement in receivables management. However, the GCA days, debtors level and dependence on working capital bank lines will be key monitorables over the medium term for the assessment of liquidity position of the company. The company is expected to generate NCA in range of Rs.16.94-20.03 Cr against maturing debt obligations in range of Rs.0.47-5.57 Cr over the medium term.

Rating Sensitivities

Positive

- Significant and sustainable improvement in the scale of operations
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle (specifically further stretch in debtors) and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

Outlook: Stable

Acuité believes that ECS will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry, healthy unexecuted order book and its venture into smart city projects. The outlook may be revised to 'Positive', in case of sustainable improvement in scale of operations and reduction in receivables from debtors leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case ECS registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	269.08	202.73
PAT	Rs. Cr.	11.51	5.61
PAT Margin	(%)	4.28	2.77
Total Debt/Tangible Net Worth	Times	0.35	0.29
PBDIT/Interest	Times	3.52	2.97

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

Not Applicable

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.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

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
28 July, 2020	Cash Credit	Long Term	20.00	ACUITE BBB/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	22.00	ACUITE A3+ (Reaffirmed)

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	ACUITE BBB+/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A2 (Upgraded)

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About Acuité Ratings & Research:
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