

Press Release

Ascent E Digit Solutions Private Limited

August 17, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned a long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the above mentioned bank facilities of Ascent E Digit Solutions Private Limited. The outlook is 'Stable'.

Incorporated in 2010, Ascent E Digit Solutions Private Limited (AEPL) is an Erode, Tamil Nadu based company engaged in distribution, installation and service of IT products to various government departments, banks, corporate, educational institutions, social organizations among others. Prior to conversion as AEPL, it was doing business since 1991 as a partnership concern in the name of 'Zigma Computer Links' (ZCL). AEPL is one of the major Rate Contract (RC) holders of ELCOT (Electronics Corporation of Tamil Nadu Ltd) for supply of IT products.

Key Rating Drivers

Strengths

- **Experienced Management and diversified revenue profile**

Promoters of AEPL have extensive experience. Mr. K. P. Mutharasu has around 35 years of experience in the field of supply of IT products (desktops, laptops, scanners, printers, modems, network devices among others), its installation and annual maintenance contract (AMC) services. Mr. Dharmaraj has worked with multinational companies such as HCL, and has an experience of 16 years. Over a period, AEPL diversified from supplies to institutions and corporates to a tender business model for supplies to Government Departments. AEPL is a registered major rate contract holder of ELCT; it is also registered with GeM – Government e Marketplace as bidder and supplier.

AEPL has garnered revenues of about Rs.22 crores each from ELCOT and GeM in FY2018 constituting about 44 per cent of total revenues. Besides these two major clients, AEPL also operates in the segment of BFSI and supplies to public and private sector banks like - Indian Overseas Bank, State Bank of India (SBI), NABARD, Karur Vysya Bank (KVB), Telangana State Technology Services, India Posts, and various departments of Government of Tamil Nadu. The healthy client mix has supported in healthy growth in revenues from Rs.56.4 crores in FY2016 to Rs.103.7 crores (provisional) in FY2018. Acuite believes that with deeper penetration of computerization across the Departments besides upgradation is expected to support in improvement of its business risk profile over the medium term.

Weaknesses

- **Below-average Financial Risk Profile**

The financial risk profile is marked by moderate gearing, comfortable debt protection metrics; however, constrained by high total outside liabilities to total net worth (TOLTNW). Its TOLTNW is high of 6.1 times as of March 31, 2018 vis-à-vis 4.35 times in FY2017; significant deterioration is attributed to high amount of revenue booking of Rs.41.2 crores (~ 45 per cent of FY2018 revenues) and related credit supplies of Rs.36.7 crores in the month of March 2018. Though gradually, the creditors have been paid off out of realisations from the debtors, still its high at about 3 times as of June 30, 2018. Gearing is moderate at 1.59 times (provisional) as of March 31, 2018 as compared to 1.40 times in FY2017. Its net worth is average at Rs.8.49 crore as on 31 March, 2018 (provisional), improved by

Rs.2.13 crores vis-à-vis FY2017 attributed to accretion of profits to internal accruals.

Debt protection metrics of interest coverage ratio (ICR) is comfortable at 3.05 times in FY2018 (provisional) as against 3.15 times in FY2017; and net cash accruals to total debt (NCA/TD) are moderate at 0.18 times and 0.23 times respectively for FY2018 (provisional) and FY2017. This fall in NCA/TD in FY2018 is due to the increase of usage of Cash Credit in the month of March, 2018 and also for the increase in unsecured loans taken by entity from the promoters to the tune of Rs.2.42 crore. Acuite believes that the financial risk profile is expected to improve over the medium term supported by higher accretion to reserves on the support of improving business risk profile over the medium term.

• Intense Working Capital Requirements

AEPL's operations are working capital intensive as evident from gross current assets (GCA) days of 207 as on March 31, 2018. Inventory days are comfortable at about 15 (provisional) as on March 31, 2018. Debtor and creditor days are intense at 163 and 168 in FY2018 respectively as compared to 88 and 77 respectively in FY2017; high attributed to about 60 per cent of revenues generated in the last quarter of 2017-18 and more particularly 45 per cent of total revenues was reported in March 2018. As majority of the supplies are to Govt Departments, the realisations happens in 60-80 days and the same have been realised during June 2018. However, the high inventory is supported back-to-back by the distributors of OEM's of IT products basis the low counter-party risk of Govt Departments, though payments are delayed. The high working capital requirements and meagre amount of working capital limits resulted in high utilisation of its bank lines. Acuite believes that the operations continue to be working capital intensive further fueled by expected growth in revenues in the range of Rs.120.0 – 160.0 crores over the medium term, though partly mitigated by AEPL's plans to take enhanced limits.

Analytical Approach

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

Outlook: Stable

Acuite believes that AEPL will maintain a stable outlook over the medium term from its promotor's industry experience. The outlook may be revised to 'Positive' in case of significant improvement in revenues while managing the working capital and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management due to inordinate delay in receipt of payments from clients leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov.)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	90.61	96.69	57.32
EBITDA	Rs. Cr.	4.94	4.41	1.84
PAT	Rs. Cr.	2.12	2.00	0.71
EBITDA Margin	(%)	5.45	4.56	3.21
PAT Margin	(%)	2.34	2.07	1.24
ROCE	(%)	26.06	37.75	23.63
Total Debt/Tangible Net Worth	Times	1.59	1.40	1.00
PBDIT/Interest	Times	3.05	3.15	2.41
Total Debt/PBDIT	Times	2.65	1.97	2.30
Gross Current Assets (Days)	Days	207	107	80

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

None

*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	5.00	ACUITE BB+ / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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