

Press Release

Edutech India Private Limited

January 22, 2021



Rating Downgraded

Total Bank Facilities Rated*	Rs.5.25 Cr
Long Term Rating	ACUITE B+/Negative (Downgraded)
Short Term Rating	ACUITE A4 (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded its long-term rating to '**ACUITE B+**' (**read as ACUITE single B plus**) from '**ACUITE BB'** (**read as ACUITE double B**) and short term rating to '**ACUITE A4**' (**read as ACUITE A four**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.5.25 Cr bank facilities of Edutech India Private Limited (EIPL). The outlook is changed from 'Stable' to 'Negative'.

About the company

Incorporated in 2000, Edutech India Pvt. Ltd. (EIPL) is part of Dubai based Edutech Group. The main promoters of the group are Ms. Shameema Parveen, Mr. Said Faisal and Mr. Samsul Asahab, who began Edutech with a view to cater to the demand of the learning software in the education sector. EIPL imports various software and technologies which are used in e-learning systems. These are sold to schools, i.e. the K12 sector, colleges, educational institutions in the higher education sector and corporate institutions. EIPL operates mainly from Chennai and has its sales offices located in Mumbai, Chennai, Bangalore, New Delhi, Kolkata, Hyderabad, and Ahmedabad.

The rating downgrade on the bank facilities of EIPL factors in the deterioration in its business risk profile marked by revenue de-growth of 37 percent in FY2020 along with negative operating margin of (12.49) percent against a positive operating margin of 2.54 percent in FY2019. This led to company incurring cash loss of Rs.(5.16) Cr in FY2020 against net profit of Rs.0.16 Cr in FY2019. The revenue is further expected to decline in FY2021 on account of Covid-19; the same is depicted through its 9MFY2021 revenue of Rs.5.24 Cr. The deterioration in business risk metrics impeded erosion in networth, high gearing and negative debt protection metrics in FY2020. Acuite believes that the financial risk metrics will continue to deteriorate in FY2021 leading to stretch in its liquidity profile.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of EIPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record and Experienced management**

EIPL is promoted by Ms. Shameema Parveen, who has over two and half decades experience in the said industry. Edutech group was first established in Dubai with a view to cater to the growing demand for E - learning systems. The group's operations is now spread over 17 cities across the globe. EIPL has long term healthy relationships with its suppliers such as Black board, USA; Question mark, USA; LEGO, USA, amongst others. Acuité believes that EIPL's business risk profile will continue to benefit from the long standing track record and experienced promoters.

- **Reputed and diversifies clientele**

EIPL is engaged in import of various software's and technologies which find its applications in e-learning systems, schools in the K12 sector, colleges, educational institutions in the higher education sector and corporate institutions amongst others. Over the years EIPL has implemented these services and technologies for reputed institutes/corporates such as IIM, NIIT, Wipro, IIT, etc., and has also been able to

secure repeat orders from them. Acuité believes that EIPL will continue to benefit from its association with a reputed and diverse client base.

Weaknesses

• Below average financial risk profile

The financial risk profile of the company remained below average marked by modest Networth and below average debt protection metrics. Networth of EIPL has come down to Rs.5.89 Cr from Rs.11.04 Cr as on March 31, 2020 and 2019 respectively on account of losses incurred during the period. Gearing stood at 1.26 times as on March 31, 2020 as against 0.71 times as on March 31, 2019 due to decline in networth levels on account of losses incurred during the period. Debt protection metrics moved to negative on account of losses. Interest coverage ratio stood at (5.34) times in FY2020 as against 1.65 times in FY2019. Debt service coverage ratio stood at (3.48) times in FY2020 as against 1.04 times in FY2019. TOL/TNW stood at 1.76 times as on March 31, 2020 as against 1.05 times as on March 31, 2019. Acuité believes that the financial profile of the EIPL is expected to be at similar levels over the medium term owing to moderate accretion to reserves and absence of any significant debt-funded capex plans.

• Moderate working capital management

The working capital management of the company remained moderate with moderate Gross Current Assets (GCA) days of 112 days as on March 31, 2020 as against 166 days as on March 31, 2019. The GCA improved on account of improvement in debtor days from 94 days to 62 days as on March 31, 2019 and 2020 respectively. Creditor days stood at 57 days and 40 days as on March 31, 2020 and 2019 respectively. Inventory days stood at 16 days and 14 days as on March 31, 2020 and 2019 respectively. The working capital limits of the company have remained ~90 percent utilized for the last 9 months ended December 2020. Acuité believes that working capital management of EIPL expected to remain moderate over the medium term.

• Declining revenues and modest order book position

The revenues of the company have declined in FY2020 on account of decline in orders for the period. As 80 to 85 percent of the company's revenues generated from orders received from government educational institutions, the less number of orders received resulted in low revenue. The revenue for FY2021 is also expected to be decline due to Covid-19 impact. EIPL has achieved revenue of Rs.5.24 Cr for 9M of FY2021. EIPL has present modest order book position of Rs.6.27 Cr which is expected to be completed by March 2021. This shows that EIPL manages to achieve revenue of Rs.11-12 Cr for FY2021. Acuité believes that there can be dip in revenues over the medium term.

• Declining profitability margins and losses in FY2020; susceptibility of margins owing to tender based operations

The profitability margins of EIPL have been declining over the period and stood at 6.76 percent in FY2018 as against 2.54 percent in FY2019 and (12.49) percent in FY2020. EBITDA margins have come down in FY2019 owing to tender based operations although the top line improved. Negative EBITDA margin in FY2020 is on account of the company unable to meet its break-even point where the fixed costs to be absorbed. This has eventually led to losses in FY2020. And the company has also created provision for doubtful advances of Rs.2.29 Cr, where the advances paid to suppliers. These are expected to be either recovered or products to be delivered in near term. So, in net, only the loss of Rs.2.87 Cr was incurred for FY2020.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Liquidity Position: Stretched

The liquidity position of the company remained stretched with negative net cash accruals to service its debt obligations. The NCA's stood in the range of Rs.0.53-(4.89) Cr through FY2018-2020 against the repayment obligation of Rs.0.37-0.41 Cr. The NCA's are expected to be in the range of Rs.(1.72)-0.70 Cr through FY21-23 against the repayment obligation of Rs.0.30-0.40 Cr. The current ratio stood below unity at 0.69 times as on March 31, 2020. The cash and bank balance stood at Rs.0.516 Cr as on March 31, 2020. The working capital limits are almost 90 percent utilized for the last six months ended December 2020. Acuité believes that the liquidity profile continues to be stretched on account of expected losses in the medium term.

Outlook: Negative

Acuité believes the outlook to be 'Negative' on account of declining revenues, losses and negative cash accruals in the current year. The rating may be downgraded in case the company exhibits lower than expected revenue growth and profitability. Conversely, the outlook will be revised to 'Stable' in case of significant and sustainable improvement in revenues, improvement in financial risk profile from existing levels and comfortable working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	15.23	24.15
PAT	Rs. Cr.	(5.16)	0.16
PAT Margin	(%)	(33.85)	0.66
Total Debt/Tangible Net Worth	Times	1.26	0.71
PBDIT/Interest	Times	(5.34)	1.65

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

None

Any Material Covenants:

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
08-Nov-19	Cash Credit	Long Term	3.50	ACUITE BB/ Stable (Reaffirmed)
	Letter of Credit	Short Term	0.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	1.25	ACUITE A4+ (Reaffirmed)
23-Aug-18	Cash Credit	Long Term	3.50	ACUITE BB/ Stable (Assigned)
	Letter of Credit	Short Term	0.50	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.25	ACUITE A4+ (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	3.50	ACUITE B+/ Negative (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE A4 (Downgraded)

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About Acuité Ratings & Research:

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