

Press Release

Merit Software Services Private Limited

D-U-N-S® Number: 85-964-8978



January 17, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 23.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 23.00 crore bank facilities of MERIT SOFTWARE SERVICES PRIVATE LIMITED (MSPL). The outlook is '**Stable**'.

The Chennai based, MSPL incorporated in 2004 by Mr. Con Anthony Colon and Mr. Anthony Buttanshaw is engaged in providing exclusive call centre/ BPO services to Meritgroup Limited (U.K. Based).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced promoters**

The promoters of MSPL have been in the aforementioned line of business for more than two decades through their respective entrepreneurial experiences.

- **Strong support from parent company**

MSPL is 100 percent subsidiary of Meritgroup Limited (U.K. based) and provides exclusive call centre/BPO services to them. Under the terms of transfer pricing agreement Meritgroup shall pay to Merit Software Services Private Limited, an amount in GBP equal to cost plus 10.50 percent markup on the total monthly expenses of MSPL. However, a minimum payment of £400,000 shall be made every month and if the minimum payment so received is more than what is due, the excess shall be adjusted against future dues.

Weaknesses

- **Moderate financial risk profile**

MSPL has moderate financial risk profile as marked by net worth of Rs.12.68 crore in FY2018 as compared to Rs.9.39 crore in the previous year. Gearing of the company depicted by Debt to Equity ratio stood at 1.93 times in FY2018, wherein the total debt comprises of foreign currency term loan of Rs.23.00 crore for the purpose of purchase of land and building renovation, furnishing and installation of computer and services.

- **Scale of operations**

MSPL has moderate scale of operations as marked by operating income of Rs.58.96 crore in FY2018 as compared to Rs.53.55 crore in the previous year. The company had grown at a CAGR of 27 percent since 2015 through 2018.

- **Competitive and fragmented nature of business**

The company is exposed to intense competition in the industry from several small and large players on account of limited entry barriers, limiting the bargaining power with the customers.

Outlook: Stable

Acuité believes that the outlook for MSPL will remain 'Stable' over the medium term on account of the promoters' extensive experience. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while effectively managing its financial risk profile. The outlook may be revised to 'Negative' in case of significantly lower than expected growth in operating income, thereby resulting in deterioration in the financial risk profile or debt protection metrics of the company.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	58.96	53.55	34.36
EBITDA	Rs. Cr.	7.09	7.27	4.17
PAT	Rs. Cr.	3.19	3.47	2.24
EBITDA Margin	(%)	12.02	13.57	12.13
PAT Margin	(%)	5.41	6.49	6.52
ROCE	(%)	14.49	29.47	61.77
Total Debt/Tangible Net Worth	Times	1.93	2.13	0.00
PBDIT/Interest	Times	13.61	349.66	306.07
Total Debt/PBDIT	Times	3.27	2.68	0.00
Gross Current Assets (Days)	Days	41	53	58

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Services Sector - <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 (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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