

Press Release

Merit Software Services Private Limited

December 28, 2020



Rating Withdrawn

Total Bank Facilities Rated*	Rs.23.00 Cr.
Long Term Rating	ACUITE BB+ (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has reviewed and withdrawn the long-term rating of '**ACUITE BB+** (read as ACUITE double B plus) on the Rs.23.00 Crore bank facilities of Merit Software Services Private Limited. The rating withdrawal is in accordance with Acuité's policy on withdrawal of rating.

The rating is being withdrawn on account of request received from the company and NOC received from the banker.

About the Company

Merit Software Services Private Limited (MSSP) 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). MSSP has offices in Chennai and Mumbai. Office in Chennai is focused on data and verification over call (VOC) services. Mumbai office is focused on providing business community support to Middle Eastern region. MSSP is 100 percent subsidiary for Meritgroup Limited. MSSP provides services in the field of Big Data, Data Resource and software program. MSSP operates on 'cost plus' model where it has fixed markup of 10.5 per cent. And also MSSP has an agreement with Meritgroup Limited, wherein the group has a promised obligation to pay minimum of 400,000 pounds per month to MSSP.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced promoters

MSSPL was incorporated in 2004 by Mr. Con Anthony Colon and Mr. Anthony Buttanshaw, who possess experience of over two decades in the ITES industry. The extensive experience has enabled the company to forge healthy relationships with customers.

Acuité believes that MSSP will continue to benefit from its experienced management and established relationships with customers.

• Moderate financial risk profile:

The financial risk profile of MSSPL is moderate marked by net worth of Rs.19.16 crore (Provisional) as on 31 March, 2020 as against Rs.15.28 crore in the previous year. The gearing (debt-equity) stood at 1.14 times (Provisional) as on 31 March, 2020 as against 1.59 times as on 31 March, 2019. The total debt as on 31 March, 2020 (Provisional) of Rs.21.79 crore consist of a term loan of Rs.20.79 crore and unsecured loan of Rs.1.00 crore. Interest Coverage Ratio (ICR) stood at 6.08 times (Provisional) for FY2020 as against 6.56 times for FY2019. Debt Servicing Coverage Ratio (DSCR) deteriorated to 1.71 times (Provisional) for FY2020 from 5.45 times for FY2019. Total outside Liabilities to Tangible Net Worth (TOL/TNW) improved to 1.60 times (Provisional) as on 31 March, 2020 from 2.79 times as on 31 March, 2019. Net cash accrual to total debt (NCA/TD) stood at 0.24 times (Provisional) for FY2020 as against 0.25 times for FY2019.

Acuité believes that the financial risk profile of MSSPL will deteriorate in near to medium term due to restricting of the group which led to change in line of business resulting in deterioration in scale of operations and profitability.

Weaknesses

- **Restructuring of the group**

Previous scenario:

MSSP 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 Pvt Ltd., an amount in GBP equal to cost plus 10.50 percent markup on the total monthly expenses of MSSP 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.

Current scenario:

Management of Merit Group Limited has been changed and control is with Dods Group. Post which they have formed a new company named 'Letrim Intelligence Services Private Limited'. The entire business of MSSP has been transferred to LISP from July, 2019 along with earlier commitments given by Merit Group Limited to MSSP. However, since LISP will be functioning from same venue from which MSSP used to function, LISP will pay rent to MSSP which will be used towards repayment of term loans.

- **Deterioration in scale of operations and profitability**

Scale of operations have deteriorated to Rs.25.18 crore (Provisional) in FY2020 from Rs.64.79 crore in FY2019. This is majorly because the group has been restructured and the business was sold to Letrim Intelligence Services Private Limited in July, 2019. Post which company is only expected to receive rental income of Rs.0.50 crore per month, which is reflected in other income of Rs.4.96 crore (Provisional) in FY2020. Revenue of Rs.25.18 crore is from the operations in Q1 of FY2020. Further, profitability has deteriorated to 6.80 per cent (Provisional) in FY2020 from 13.14 per cent in FY2019.

Acuité believes that the scale of operations will deteriorate further as the company is expected to receive only rental income of Rs.0.50 crore per month from Letrim Intelligence Services Private Limited. However, some traction in the business is expected in FY2021 or FY2022.

Rating Sensitivities

Not Applicable

Material Covenants

None

Liquidity: Adequate

MSSPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.22 crore (Provisional) in FY2020 while its maturing debt obligation was Rs.2.60 crore for the same period. The company maintains unencumbered cash and bank balances of Rs.0.13 crore (Provisional) as on March 31, 2020. The current ratio of the company stands at 1.42 times (Provisional) as on March 31, 2020.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term as the repayment of the term loans have been taken care of through the rental income from Letrim Intelligence Services Private Limited which is under ESCROW mechanism.

Outlook

Not Applicable

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	25.18	64.79
PAT	Rs. Cr.	0.11	3.70
PAT Margin	(%)	0.45	5.71
Total Debt/Tangible Net Worth	Times	1.14	1.59
PBDIT/Interest	Times	6.08	6.56

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

None

Any other information

Not Applicable

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>
- Entities in Service 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
17-Mar-2020	Term Loan	Long Term	23.00	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/Stable)
17-Jan-2019	Term Loan	Long Term	23.00	ACUITE BBB-/ Stable (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
Term Loan	29-09-2017	Not Available	29-09-2024	23.00	ACUITE BB+ (Withdrawn)

Contacts

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About Acuité Ratings & Research:

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