

Press Release

Crayon Software Experts India Private Limited

February 11, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 80.00 Cr.
Long Term Rating	ACUITE BBB+ and ACUITE BBB- Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 79.00 crore bank facilities backed by Standby Letter of Credit (SBLC) of Crayon Software Experts India Private Limited (CSEI).

Further, Acuite has also assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.1.00 crore proposed facility. The outlook is '**Stable**'.

Mumbai, Maharashtra based Crayon Software Experts India Private Limited (CSEI) incorporated in the year 2014. The company provides software and consulting services to its clients to optimize their software cost and reduce complexity. CSEI is a wholly own subsidiary of Crayon Group Holding ASA (Norway), one of the global player in software asset management (SAM), cloud and volume licensing and associated consulting services. CSEI has corporate offices at Mumbai, New Delhi, Bengaluru, Chennai, and Noida among other places. The company is a software distributor for companies such as Microsoft, Oracle, Amazon Internet Services and VMware. The company primarily distributes software products in India which contributes to around 85.00 percent of its revenue.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of CSEI to arrive at this rating. Further, Acuite has taken support from Standby Letter of Credit (SBLC) provided by DANSKE Bank A/S to the tune of Rs.39.2 crore to secure the bank facilities availed from IndusInd Bank Limited (~80.00 per cent cover) and Bank Guarantee of Rs.15.50 crore provided by IndusInd Bank to secure the facilities availed from Tata Capital Financial services Limited (~51.67 per cent cover).

Key Rating Drivers

Strengths

• Facilities secured by SBLC from DANSKE Bank A/S and Bank Guarantee of IndusInd Bank

The bank facilities to CSEI comprise cash credit facilities from IndusInd Bank aggregating Rs. 49.00 crore which are secured by a Standby Letter of Credit (SBLC) from DANSKE Bank A/S which amounts to Rs.39.20 crore. The SBLC from DANSKE Bank A/S is valid till March 31, 2020. The SBLC is renewed on an annual basis. DANSKE Bank A/S's market capitalization stood at DKK 94.00 Billion. The total assets stood at DKK 3578 billion and total income of DKK 44.37 Billion. Further, the facilities availed from Tata Capital is covered by Bank Guarantee provided by IndusInd Bank of Rs.15.50 crores which covers ~51.67 percent of total facility availed from Tata Capital. The rating assumes that this SBLC and bank guarantee will be renewed in a timely manner so as to cover the lending bank's exposure till the maturity of the facilities. Similarly the rating is also sensitive to changes in the credit profile of SBLC issuing bank i.e. DANSKE Bank A/S and Bank guarantee issued by IndusInd Bank.

• Experienced management and strong parentage

CSEI is wholly own subsidiary of Crayon Group Holding ASA (CGH) based of Norway, having operational track record of over a decade in the IT industry. CSEI was incorporated in the year 2014. CSEI is managed by Mr. Torgrim Takle, Mr. Rune Syversen and Mr. Vikas Waman Bhonsle (CEO -

Director). Mr. Rune Syversen is one of the founders of CGH and Mr. Torgrim Takle is the CEO of CGH. Mr. Syversen has over two decades of experience in the IT and Finance industry. Mr. Vikas Waman Bhonsle is managing the Indian market for the group. CSEI is engaged in distribution of software licenses for companies such as Microsoft, Oracle, and VMware among others. The company also caters to international market which contributes to ~15percent of total revenues. The company caters to countries like United States of America (USA), Singapore, Germany and Sweden. Globally, Crayon Group has presence in more than 20 countries and has garnered over 16,000 partners. Acuite believes the company will continue to benefit from its established market position in the international IT services business as well as increasing domestic software distribution business, driven by its strong set of service offerings, and alliances with leading software vendors.

- **Improving scale of operations coupled with reputed clients**

The operating income of CSEI has grown at a Compounded Annual Growth Rate (CAGR) of 32.21 percent for the period FY2017-FY2019. The revenues have increased to Rs. 555.67 crore in FY2019 from Rs. 344.07 crore in FY2018, and 240.47 crore in FY2017. Further, the revenues for 9MFY2020 stood at Rs. 664.37 crore as against Rs 384.02 crore in the same period previous year. The continuous increase in revenues is majorly on account of increasing customer profile and repeated orders received from the existing clients. It has establish longstanding relationships with reputed customers like Ratnakar Bank Limited, Tata Communications, Infosys Limited and Barclays Global to name few while actively adding new clients. Acuite believes that the revenues are further expected to improve further on account of addition of new clients thereby providing revenue visibility over near to medium term.

- **Moderate financial risk profile**

The financial risk profile of the company stood moderate marked by moderate net worth, comfortable debt protection metrics and moderate coverage indicators. The net worth of CSEI stood at Rs. 49.34 crore as on 31 March, 2019 as against Rs. 8.88 crore as on 31 March, 2018 supported infusion of capital by Crayon Group AS (Norway) and healthy accretion to reserves during the same period. The increase in net worth is mainly on account of equity infusion of Rs. 36.10 crore as on 31 March 2019. The gearing (debt-equity) stood at 0.85 times as on 31 March, 2019 as against 4.24 times as on 31 March, 2018. The total debt outstanding of Rs. 41.77 crore as on 31 March, 2019 mainly comprises of working capital borrowings. Further, the coverage indicators stood moderate marked by Interest Coverage Ratio (ICR) which stood at 5.05 times for FY2019 as against 1.53 times for FY2018. Debt to EBITDA stood at 2.04 times in FY2019 which has improved from 7.06 times in FY2018. The improvement in coverage indicators are majorly on account of healthy revenue growth in FY2019 over previous year. Acuite believes that the financial risk profile of the company is expected to improve on account of healthy net cash accruals in near to medium term.

Weaknesses

- **Moderately working capital intensive nature of operations**

The company working capital operations stood moderate marked by Gross Current Assets (GCA) of 136 days for FY2019 as against 142 days for FY2018. The debtors stood high at 110 days for FY2019 as against 116 days for FY2018. The inventory level stood low at 9 days for FY2019 as against 7 days for FY2018. However, the average bank limit utilization stood at ~50.14 percent for past six months ending December 2019. This is mainly on account of extended credit received from suppliers especially by Microsoft as reflected by payables days of 72 for FY2019 and 80 days in the previous year. Acuite believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

- **Intense competition marked by thin profitability**

The IT services and ITES sector is undergoing rapid evolution especially in the software distribution business which is highly competitive as companies compete for a share of the outsourcing pie. CSEI has to compete with multiple players in most of the verticals within the IT services business as a large portion of its revenue comes from the software distribution business where price competition is high. The same can be seen through thin operating margins of 2.45 percent in FY2019 and 1.39 percent in

FY2018. Acuite believes CSEI's profitability will remain constrained over the medium term as competition limits increases in realization. However, improving market share and adding of new customers will help to sustain existing profitability levels.

Liquidity Position: Adequate

The liquidity profile of the company is adequate marked by Rs.16.99 crores net cash accruals as against no debt repayment obligation due to absence of long term debt. The net cash accruals are expected to be in the range of Rs.16.50 - 17.50 crores through FY2020-22. The unencumbered cash and bank balance stood at Rs.9.73 crores as on 31 March 2019. The current ratio stood at 1.26 times and GCA days stood at 136 days for FY2019. Further, the average bank limit utilization stood at ~50.14 percent for past six months ended December 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Rating Sensitivities

- Any further deterioration in working capital
- Credit profile of issuing banks for SBLC and BG

Outlook: Stable

Acuite believes that CSEI will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and reputed clientele. The outlook maybe revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability, while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	555.67	344.07
PAT	Rs. Cr.	16.72	1.61
PAT Margin	(%)	3.01	0.47
Total Debt/Tangible Net Worth	Times	0.85	4.24
PBDIT/Interest	Times	5.05	1.53

Any other information

Not Any

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	49.00*	ACUITE BBB+/ Stable
Inventory Funding	Not Applicable	Not Applicable	Not Applicable	30.00^	ACUITE BBB+/ Stable
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB-/ Stable

*Sub Limits of Rs. 20.00 crores Bank Guarantee. The rating factors in support in form of SBLC mechanism through which DANSKE Bank A/S will be paying on behalf of the company as and when the company fails to meet its debt obligation. DANSKE Bank A/S, has given SBLC which covers 80% of the sanctioned value (i.e Rs. 39.20 crore).

^The facilities of TATA Capital is backed by Bank Guarantee extended by IndusInd Bank to the tune of Rs.15.50 crore which covers 51.67 percent of total facility.

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About Acuité Ratings & Research:

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