

Press Release

VIRINCHI LIMITED

June 29, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.25.00 Cr.
Long Term Rating	ACUITE BB / Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.25.00 crore bank facilities of VIRINCHI LIMITED (VL). The outlook is '**Stable**'.

Hyderabad, Telangana based, Virinchi Limited (VL) is engaged in Information Technology based products and services. The company was incorporated in the year 1990. It was set up by Mr. Vishwanath Kompella, an alumnus of IIT Chennai. VL is engaged in the business of providing IT services to fintech companies. The company's flagship product Q-Fund is used by the alternate finance companies in North America to fund the subprime customers for a short term. The company is listed on Bombay Stock Exchange (BSE).

Analytical Approach

Acuite has consolidated business and financial risk profile of Virinchi Limited (VL) and its subsidiaries including Virinchi Healthcare Private Limited (VHPL) together referred as Virinchi Group (VG) to arrive at the rating. The consolidation is on account of common management and significant financial linkages and corporate guarantee extended by VL. Extent of Consolidation: Full

About Group

Hyderabad based Virinchi Limited (VL) was incorporated in 1990 by Mr. Vishwanath Kompella, engaged in the business of providing IT based products and services to fintech companies. In the year 2016, Virinchi Health care Private Limited was incorporated with 350 beds capacity at Hyderabad which is 100% subsidiary of Virinchi Limited. The subsidiaries of Virinchi Limited includes Virinchi Healthcare Private Limited, Q fund Technologies Private Limited, KSoft systems Inc, Tensor Fields Consultancy Services Private Limited, Virinchi Combinatorics & Systems Biology Private Limited, Virinchi Learning Private Limited, Virinchi Media & Entertainment Private Limited, Virinchi Infra & Realty Private Limited, Tyohar Foods Private Limited, Asclepius Consulting & Technologies Private Limited.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

Hyderabad based Virinchi Limited (VL) was incorporated in 1990 by Mr. Vishwanath Kompella, engaged in the business of providing IT based products and services to fintech companies. The company's flagship product Q-Fund is used by the alternate finance companies in North America to fund the subprime customers for a short term. In the year 2016, Virinchi Health care Private Limited was incorporated with 350 beds capacity at Hyderabad which is 100% subsidiary of Virinchi Limited. Virinchi Group (VG) is promoted by Mr. Vishwanath Kompella who have more than three decades experience in IT and Healthcare Industry. The group has an established position in the IT industry of about three decades. VL's revenues are 100 percent export-oriented catering to North America. Due to the group's established track record of operations and management experience, the group has booked the revenue of Rs.407.09 crore in FY2019 as compared to Rs.341.42 crore in FY2018. Further, the group generated a revenue of Rs.287.48 crore for 9MFY2020. The group is expected to leverage its well-established relationships with reputed clients and suppliers.

Acuite believes that VG shall continue to benefit from its long standing presence of more than three decades in the IT and Health care industry and its established position which is likely to result in steady stream of revenues for the company over the medium term.

- **Increase in scale of Operations and profitability margins.**

The revenues of the VG grew at a CAGR of 19 percent for three years ending FY2019. The revenues has increased to Rs.407.09 crore in FY2019 from Rs.268.68 crore in FY2017. Further, the group generated a revenue of Rs.287.48 crore for 9MFY2020. The growth in revenue is majorly on account of increase in revenues from Health care Segment of the Group. Further, for FY2019, Healthcare segment contributes to ~29 percent of total sales, ~65 percent is generated from IT related services and remaining 6 per cent is from other operating revenues from subsidiaries.

Further, operating margins of the company has improved over the three-year period ending FY2019. The operating margins has improved and stood at 29.82 per cent in FY2019 as against 27.94 percent in FY2018 and 21.64 percent in FY2017. The PAT margin stood at 14.47 per cent in FY19, 9.72 percent in FY18 and 8.23 percent in FY17.

- **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by moderate net worth, gearing and debt protection indicators. Gearing and TOL/TNW levels are moderate at 0.69 and 0.93 times as on 31 March, 2019 vis-à-vis 0.84 and 1.28 times as on 31 March, 2018. Net worth is moderate and increased to Rs.234.93 crore as on 31 March, 2019 as against Rs.186.42 crore in the FY2018 due to accretion of profits to reserves. Of the total debt of Rs.162.22 crore as on 31 March, 2019, long term debt constitutes Rs.100.54 crore, unsecured loans from promoters constitutes of Rs.5.77 crore and short term debt of Rs.33.36 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 5.63 times and 0.58 times respectively in FY2019 as against 5.49 times and 0.42 times respectively in FY2018. Interest coverage ratio has improved due to increase in EBITDA in absolute terms, NCA/TD improved to 0.58 in FY2019 from 0.42 in FY2018 due to increase in net cash accruals in FY2019 when compared to FY2018 due to increase in PAT levels when compared to previous year. Virinchi Group generated cash accruals of Rs.94.89 crores in FY2019 as against Rs.66.51 crore in FY2018.

Acuite believes that the financial risk profile of the company is expected to be at similar levels over the medium term supported by moderate cash accruals.

Weaknesses

- **Working capital intensive operations**

The group operates in a working capital-intensive nature of operated marked by Gross Current Assets days at 130 for FY2019 as against 161 for FY2018. The debtor days improved and stood at 69 days in FY2019 against 84 days in FY2018. Inventory days are moderate and stood at 11 days in FY2019 as against 15 days in FY2018. Virinchi Group has fully utilized their working capital limits for the past six months ended May 2020.

- **Liquidity issues in one of the Subsidiary Companies**

Virinchi Healthcare Private Limited (VHPL) is a 100 percent subsidiary of Virinchi Limited. The company operates Multi Specialty Hospital. Further, VHPL's liquidity is stretched and has faced intermittent delays in servicing of debt in the past. Further, Virinchi Limited has given Corporate Guarantee to VHPL. Acuite believes, the promoters of VHPL, i.e., VL will have to continuously support the operations of VHPL to make sure the timely repayment of debt. Further, in case of invocation of Corporate Guarantee in future, the financial risk profile of VL will be severely impacted.

- **Highly competitive industry**

IT industry is characterized by intense competition from large players enjoying benefits and higher bargaining power. The company also remains susceptible to industry-specific risks, such as exchange-rate fluctuations. However, the entrepreneurial experience is supporting its operating margins stood range bound between 29.82 percent 21.64 percent over past three years ending fiscal 2019.

Rating Sensitivity factors:

- Significant Improvement in revenues
- Any delays in servicing debt obligations in future

Material Covenants: None

Liquidity Position: Stretched

VG's liquidity is stretched marked by net cash accruals as compared to its maturing debt obligations. The group generated cash accruals of Rs.48.33-94.89 crore during the last three years through 2017-19, while the maturing debt obligations were in the range of Rs.9.94-22.54 crore over the same period. The cash accruals are estimated to improve to Rs.78 - 65 crore during 2020-22, while its repayment obligations in the range of Rs.25.00 crore to Rs.28.00 crore. The group maintains cash and bank balances of Rs.9.04 crore as on March 31, 2019. The current ratio stood moderate at 1.39 times as on March 31, 2019. GCA stood at 130 days in FY2019 as against 161 days in FY2018. However, the working capital limits of the group remain almost fully utilized. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of moderate cash accruals as against its repayment obligations.

Outlook: Stable

Acuite believes that VG will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management, deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	407.09	341.42
PAT	Rs. Cr.	58.92	33.20
PAT Margin	(%)	14.47	9.72
Total Debt/Tangible Net Worth	Times	0.69	0.84
PBDIT/Interest	Times	5.63	5.49

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

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Entities - <https://www.acuite.in/view-rating-criteria-50.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BB/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.20	ACUITE BB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.32	ACUITE BB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.48	ACUITE A4+ (Assigned)

Contacts

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About Acuité Ratings & Research:

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