Press Release

Virinchi Limited

September 20, 2021

Rating Upgraded

Total Bank Facilities Rated*	Rs.25.00 Cr.
Long Term Rating	ACUITE BBB-/ Stable (Upgraded)
Short Term Rating	ACUITE A3 (Upgraded)

* *Refer Annexure for details*

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE BBB-**' **(read as ACUITE triple B minus)** from '**ACUITE BB**' **(read as ACUITE double B)** and short term rating to **'ACUITE A3' (read as ACUITE A three)** from **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.25.00 Cr. bank facilities of Virinchi Limited (VL). The outlook is '**Stable**'.

About the company

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).

About the 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.

Rationale for Rating Reaffirmation

The rating upgrade on the bank facilities of VG factors in its established track record of operations, experienced management, healthy financial risk profile, timely repayment of debt obligation, adequate liquidity, support from parent company to subsidiaries. However, these strengths are offset by its moderate working capital management, stringent regulatory framework for healthcare sector and highly competitive industry w.r.to IT industry.

Analytical Approach

Acuité has consolidated the 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.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations; Decline in revenues owing to impact of Covid-19 and expected improvement in top line for FY2022**

  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 has more than three decades of 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.354.01 crore in FY2021 as compared to Rs.381.46 crore in FY2020. The revenues of the group have marginally declined owing to impact of Covid-19. Virinchi Limited engaged in providing IT products to fintech companies in USA. These fintech companies are engaged in providing loans to sub-prime customers. Due to Covid-19 hit and lockdown, the decline in customer footfall has led to decline in revenues marginally by Rs.6.75 Cr in FY21 on standalone basis, although this is mitigated by operating through online portal for providing the loans. Virinchi Healthcare Private Limited revenues have marginally dipped by Rs.1.12 Cr. This is due to postponement of planned surgeries and other health care services in Q1 of FY2021 due to government regulations. Post Q1 of FY2021, the company started providing Covid-19 treatment and also other health care services. Going forward, the revenues of Virinchi Limited are expected to remain stable and for Virinchi Healthcare Private Limited, it is expected to improve. Further, the group generated the revenues of Rs.116.29 crore for 3M FY2022. The group is expected to leverage its well established relationships with reputed clients and suppliers. Acuité 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.

- **Healthy financial risk profile**

  The financial risk profile of the group is healthy with healthy networth, gearing and moderate debt protection metrics. The networth of the group stood at Rs.292.78 Cr and Rs.285.92 Cr as on March 31, 2021 and 2020 respectively. The gearing improved to 0.55 times as on March 31, 2021 and 2020 compared to 0.69 times as on March 31, 2019 due to increase in networth levels. Debt protection metrics interest coverage ratio and debt service coverage ratio has been marginally deteriorated due to decline in EBITDA on absolute terms on account of decline in turnover. ICR stood at 3.17 times for FY2021 as against 5.06 times for FY2020. DSCR stood at 1.66 times for FY2021 as against 2.53 times for FY2020. TOL/TNW stood at 1.06 times and 0.67 times as on March 31, 2021 and 2020 respectively. Acuité believes that the financial risk profile of the group is expected to remain healthy over the medium term on account of moderate cash accruals and no significant debt-funded capex plans.

Weaknesses

- **Moderate working capital management**

  The financial risk profile of the group has remained moderate with moderate GCA days of 178 days as on March 31, 2021 as against 137 days as on March 31, 2020. GCA marginally increased due to marginal increase in debtor and inventory days. The debtor days stood at 79 days and 71 days as on March 31, 2021 and 2020 respectively. Inventory days stood at 17 days and 13 days as on March 31, 2021 and 2020 respectively. Creditor days stood at 130 days and 172 days as on March 31, 2021 and 2020 respectively. Working capital limits of the group remained utilized at around 85 percent for the last 12 months ended July 2021. Acuité believes that the working capital operations are expected to be at similar levels over the medium term.

- **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.

- **Stringent regulatory framework, reputational intensive healthcare sector**

  Despite the increasing trend of privatization of healthcare sector in India, the group continues to operate under stringent regulatory control. Accordingly, regulatory challenges continue to pose a significant risk to private healthcare institutions, as they are highly susceptible to changes in regulatory framework. Healthcare is a highly sensitive sector, where any mishandling of a case or negligence on the part of any doctor and/or staff of the unit can lead to distrust among the masses. Thus, all the healthcare providers need to monitor each case diligently and maintain standard of services in order to avoid the occurrence of any unforeseen incident. They also need to maintain high vigilance to avoid any malpractice at any pocket.

Rating Sensitivity factors

- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity
- Lower-than-expected revenue or profitability leading to lower net cash accruals
- Any delay in servicing debt obligation in future

Material Covenants: None

Liquidity Position: Adequate

VG has adequate liquidity marked by adequate net cash accruals as compared to its maturing debt obligations. VG generated net cash accruals of Rs.50.88 Cr for FY2021 vis-à-vis maturing debt obligations of Rs.17.91 Cr over the same period. The cash accruals are estimated to be around Rs.70.00-90.00 Cr during FY2022-24 vis- à-vis repayment obligations in the range of Rs.24.35 Cr to Rs.23.70 Cr. VG maintained cash and bank balances of Rs.19.02 Cr as on March 31, 2021. The current ratio stood modest at 1.67 times as on March 31, 2021. The working capital limits of the company remained ~85 utilized for the last six months ended July, 2021. Acuité believes that the VG's liquidity is expected to remain adequate over the medium term.

Outlook: Stable

Acuité 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	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	354.01	381.46
PAT	Rs. Cr.	2.67	46.46
PAT Margin	(%)	0.76	12.18
Total Debt/Tangible Net Worth	Times	0.55	0.55
PBDIT/Interest	Times	3.17	5.06

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

None

Any other information

None

Applicable Criteria

- Default Recognition – https://www.acuite.in/view-rating-criteria-52.htm
- Service Sector - https://www.acuite.in/view-rating-criteria-50.htm
- Application of Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Criteria for 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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
29-Jun-20	Packing Credit	Long Term	18.00	ACUITE BB / Stable (Assigned)

	Term Loan	Long Term	4.20	ACUITE BB / Stable (Assigned)
	Proposed Bank Facility	Long Term	0.32	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	2.48	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Canara Bank	Packing Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BBB-/ Stable (Upgraded)
Canara Bank	Term Loan	Jan 2018	9.05	Mar 2022	2.44	ACUITE BBB-/ Stable (Upgraded)
Canara Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.48	ACUITE A3 (Upgraded)
Not Applicable	Proposed	Not Applicable	Not Applicable	Not Applicable	0.08	ACUITE BBB-/ Stable (Upgraded)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, ithas assigned more than 8,695 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.