

Press Release

Virinchi Limited

December 19, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.52	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	4.48	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for the rating downgrade

The rating downgrade takes into account the decline in the operating performance in current fiscal year (FY2023 - Prov; September 2022) wherein the group has reported Rs.154.81 Cr of operating income and a net loss of Rs.(1.26) Cr. Moreover, the change in accounting practise as per the accounting standard 116, has resulted in restatement of lease liabilities leading to decrease in the net profit by Rs.23.67 Cr. in the FY2022.

The rating continues to derive its strengths from extensive experience of the management in the IT services and healthcare industry, established market position and moderate financial risk profile. These strengths are partially offset by the working capital intensive nature of operations, highly competitive industry and stringent regulatory framework, reputational intensive healthcare sector of the company.

About 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.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profile of Virinchi Limited (VL) and its subsidiary - Virinchi Healthcare Private Limited (VHPL); together referred as Virinchi Group (VG) to arrive at the rating. The consolidation is on account of common management, significant financial linkages and corporate guarantee extended by VL.

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 and current capacity at 700 beds, 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.364.01 Cr in FY2022 as compared to Rs.354.01 Cr in FY2021. 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.

Moderate financial risk profile

Virinchi Group's financial risk profile is moderate, marked by moderate capital structure and debt protection metrics. Virinchi Group has healthy net worth at Rs.281.96 Cr as on March 31, 2022 as against Rs.292.78 Cr as on March 31, 2020. The reduction in net worth is due to the restatement of lease liability. Its gearing (debt-to-equity) and total outside liabilities to tangible net worth (TOL/TNW) were healthy marked by debt-to-equity of 0.62 times and 1.18 times, respectively, as on March 31, 2022 against 0.55 times and 1.06 times March 31, 2021. Debt protection metrics are comfortable, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 3.79 times and 0.36 times, respectively, in FY2021 against 3.14 times and 0.32 times for FY2021. Acuité believes that the financial risk profile of the group is expected to remain healthy backed by expected ramp-up in operations and moderate routine capital expenditure towards addition and replacement of equipment's.

Weaknesses

Working capital intensive operations

The working capital management of the group remained moderate with high gross current asset (GCA) days at 183 days as on March 31, 2022 as against 178 days as on March 31, 2021. Inventory days stood at 20 days as on March 31, 2022 as against 17 days as on 31 March, 2021. Subsequently, the payable period stood at 122 days as on March 31, 2022 as against 130 days as on March 31, 2021 respectively. The debtor day stood at 76 days as on March 31, 2022 as against 79 days as on March 31, 2021. Further, the average bank limit utilization in the last twelve months ended October 22 remained at 88.53 percent for fund

based bank facilities. Acuité believes that the working capital operations of the company will remain at similar levels over the medium term owing to the nature of the industry.

Highly competitive industry and stringent regulatory framework, reputational intensive healthcare sector. 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. 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 Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins.
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.
- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity.

Material Covenants

None

Liquidity: Adequate

Virinchi Group has adequate liquidity marked by adequate net cash accruals (NCA) as compared to its maturing debt obligations. VG generated net cash accruals of Rs.62.17 Cr for FY2022 against repayment obligations of Rs.38.44 Cr over the same period. The net cash accruals are estimated to be around Rs.46.22 - 52.29 Cr during FY2022-24 against repayment obligations in the range of Rs.26.89 Cr to Rs.38.12 Cr. VG maintained cash and bank balances of Rs.36.60Cr as on March 31, 2022. The current ratio stood modest at 1.86 times as on March 31, 2022. The working capital limits of the company remained 88.53 percent utilized for the last twelve months ended October, 2022. Acuité believes that the group's liquidity is expected to remain adequate over the medium term.

Outlook: stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on account of the extensive experience of the promoters and healthy financial risk profile. The outlook may be revised to 'Positive' if the company achieves substantial improvement in its working capital management and liquidity. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability or financial risk profile leading to deterioration in liquidity

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	364.01	354.01
PAT	Rs. Cr.	14.12	2.68
PAT Margin	(%)	3.88	0.76
Total Debt/Tangible Net Worth	Times	0.62	0.55
PBDIT/Interest	Times	3.79	3.14

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Sep 2021	Proposed Bank Facility	Long Term	0.08	ACUITE BBB- Stable (Upgraded from ACUITE BB Stable)
	Bank Guarantee	Short Term	4.48	ACUITE A3 (Upgraded from ACUITE A4+)
	Term Loan	Long Term	2.44	ACUITE BBB- Stable (Upgraded from ACUITE BB Stable)
	Packing Credit	Long Term	18.00	ACUITE BBB- Stable (Upgraded from ACUITE BB Stable)
29 Jun 2020	Packing Credit	Long Term	18.00	ACUITE BB Stable (Assigned)
	Proposed Bank Facility	Long Term	0.32	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	4.20	ACUITE BB Stable (Assigned)
	Bank Guarantee	Short Term	2.48	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	4.48	ACUITE A4+ Downgraded
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	ACUITE BB+ Stable Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.08	ACUITE BB+ Stable Downgraded
Canara Bank	Not Applicable	Term Loan	Jan 30 2018 12:00AM	9.05	Mar 31 2022 12:00AM	Simple	2.44	ACUITE BB+ Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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