Press Release
VIRINCHI LIMITED
March 18, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	23.00	ACUITE BB+ | Stable | Reaffirmed	-
Bank Loan Ratings	2.00	-	ACUITE A4+ | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	25.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of **'ACUITE BB+' (read as ACUITE double B plus)** and short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on Rs.25 Cr. bank facilities of Virinchi Limited. The outlook is **'Stable'.**

Rationale for rating reaffirmation:
Reaffirmation of rating considers the experienced management, established track record of operations and comfortable financial risk profile of Virinchi group, albeit the decline in operating performance noted in the period under review.,The group's revenue has declined to Rs.311.94 Cr. in FY23 from Rs.364.01Cr. of FY22 led by low inpatient counts in the healthcare segment of the group. The EBITDA margin of the group stood improved at 34.24 percent in FY23 from 27.61 percent in FY22, while the net profit stood at 4.08 percent for FY2023 as against 3.88 percent for FY2022. However, Virinchi Healthcare Private Limited continued to report net loss for the 3 rd consecutive year on account of high depreciation and finance cost.

Further the operations of the group continued to be moderate in FY2024. The group reported revenue of Rs.226.48 Cr. in 9MFY24 which is 4 percent less compared to revenue of Rs.236 Cr. during same period of previous year. The capital structure of the group remained comfortable with gearing of 0.79 times and total outside liabilities to tangible networth of 1.55 times for FY23 and is expected to remain stable over the medium term.
The rating is constrained by intensive working capital operations of the group and high competition, stringent regulatory frame work in the healthcare sector.

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

Unsupported Rating

Not Applicable

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 600 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. 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.

Comfortable financial risk profile:
Financial risk profile of the group is marked by comfortable net worth, capital structure and debt protection metrics. Group's net worth stood at Rs. 244.76 Cr. as on March 31, 2023 as compared to Rs. 206.81 Cr. as on March 31, 2022. Improvement in net worth is on account of ESOPs of Rs.4.32 Cr. allotted during the year, share warrants of Rs.10.50 Cr. issued by the company during the year, premium amount of Rs.9.45 Cr. received by the company and accretion for profits to reserves. Virinchi group's capital structure is comfortable marked with healthy gearing and total outside liabilities to total net worth (TOL/TNW) of 0.79 times and 1.55 times respectively as on March 31, 2023 as against 0.89 times and 1.66 times as on March 31, 2022. The coverage indicators were moderate with DSCR of 1.64 times as on March 31st 2023 as against 1.73 times as on March 31st 2022. Interest coverage stood at 3.27 times as on March 31st 2023 as against 3.79 times as on March 31st 2022. Debt to EBITDA is continued to remain moderate at 1.75 times during FY23 from 1.78 times during previous year.
Acuite believes that the financial risk profile of the company will remain comfortable for FY24 as well on account of healthy net worth position.

Weaknesses

Stagnant growth in operations:

The Virinchi group's revenue has declined during FY23 to Rs.311.94 Cr. from Rs.363.01 Cr. in FY22. Decline in revenue is on account of lower revenue reported in healthcare segment. Revenue from healthcare segment have declined by 25 percent in FY23 to Rs.136.16 Cr. The decline in revenue is due to lower IP flow post Covid period followed by moving out of few specialized doctors during last 2 years. Further the group has registered revenue of Rs.226.48 Cr. in 9MFY24 against Rs.236.46 Cr. of 9MFY23 and expected to register revenue in the range of Rs.310-315Cr by the end of the year. EBITDA margin of the group is improved to 34.34 percent in FY23 against 27.61 percent in FY22. Further, the group registered stable EBITDA margin in the 9MFY24 at ~36 percent. Going forward the operations of the group are likely to improve on account of its expansion plans in both healthcare and IT segments.

Intensive working capital operations:

The working capital operations of the group are intensive which is evident from the Gross Current Assets (GCA) of 208 days in FY23. Stretch in GCA days is mainly on account of elongated debtor days at 77 days. Receivable period in healthcare segment is generally stretched as the recovery from general insurance, ESI and government's Arogya Shree schemes takes 3-4 months to recover. However, debtors in I.T business will be recovered in 30-45 days. The fund based working capital limits were utilized at an average of ~92percent in the past 6 months ending December 2023. Acuite believes that working capital operations of the company will remain intensive over the medium term as the nature of its operations.

Highly competitive industry and st ringent 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.

Liquidity position: Adequate

Virinchi group's liquidity position is adequate which is evident from sufficient net cash accruals (NCA) to meet the debt repayment obligations. The group has reported Net Cash Accruals (NCA's) of Rs.35.19Cr. for FY23 against Rs.38.65 Cr. debt repayment obligations. The cash accruals are estimated to remain in the range of Rs.75-85 Cr. in the medium term against expected debt repayment range of Rs.30-25 Cr. for the same period.

The group's unencumbered cash and bank balances stood at Rs.11.33 Cr. as on March 31, 2023, providing additional comfort towards liquidity. Intensive working capital operations have led to high reliance on the fund based working capital limits which were utilized in the range of ~92 percent during the past 6 months ending December, 2023. Besides current ratio of the group stood at 1.73 times as on March 31, 2023. Acuite believes that liquidity position of the group will remain adequate in the medium term on account of sufficient NCA.

Outlook: Stable

Acuité believes that the group 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 group 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	311.94	364.01
PAT	Rs. Cr.	12.72	14.12
PAT Margin	(%)	4.08	3.88
Total Debt/Tangible Net Worth	Times	0.79	0.89
PBDIT/Interest	Times	3.27	3.79

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

Not Applicable

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
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.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, Acuité 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
19 Dec 2022	Bank Guarantee/Letter of Guarantee	Short Term	4.48	ACUITE A4+ (Downgraded from ACUITE A3)
	PC/PCFC	Long Term	18.00	ACUITE BB+ | Stable (Downgraded from ACUITE BBB- | Stable)
	Proposed Long Term Bank Facility	Long Term	0.08	ACUITE BB+ | Stable (Downgraded from ACUITE BBB- | Stable)
	Term Loan	Long Term	2.44	ACUITE BB+ | Stable (Downgraded from ACUITE BBB- | Stable)
20 Sep 2021	Bank Guarantee/Letter of Guarantee	Short Term	4.48	ACUITE A3 (Upgraded from ACUITE A4+)
	PC/PCFC	Long Term	18.00	ACUITE BBB- | Stable (Upgraded from ACUITE BB | Stable)
	Proposed Long Term Bank Facility	Long Term	0.08	ACUITE BBB- | Stable (Upgraded from ACUITE BB | Stable)
	Term Loan	Long Term	2.44	ACUITE BBB- | Stable (Upgraded from ACUITE BB | Stable)

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 avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.00	ACUITE A4+ | Reaffirmed
Canara Bank	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	18.00	ACUITE BB+ | Stable | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.56	ACUITE BB+ | Stable | Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	30 Jan 2018	Not avl. / Not appl.	31 Mar 2022	Simple	2.44	ACUITE BB+ | Stable | Reaffirmed

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

- Virinchi Limited
- Virinchi Healthcare Private Limited.

Contacts

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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.