

## Press Release

ESDS Software Solutions Private Limited

December 16, 2020

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs.82.00 Cr.
<b>Long Term Rating</b>	ACUITE A- / Outlook: Stable (Assigned)
<b>Short Term Rating</b>	ACUITE A1 (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short-term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs.82.00 crore bank facilities of ESDS Software Solutions Private Limited. The outlook is '**Stable**'.

The rating factors in the long track record of operations of ESDS Software Solutions Private Limited in providing IT services and software solutions, reputed clientele, healthy growth in operating income, healthy order book position and conservative financial policy. Acuite has taken cognizance of the expected fresh equity infusion in FY2021 to the tune of Rs.300 crore, which is expected to lower the existing debt levels along with capital expenditures. Acuite believes that the company's ability to scale up its operating level will be critical towards the rating. The rating, however, is constrained on account of high working capital requirement and intense competition ESDS faces from well-established competitors in the cloud computing business.

### About the company

Nashik-based, ESDS Software Solution Private limited (ESDS) was incorporated in 2005 by Mr. Piyush Somani. The company is engaged in the business of providing IT services and software solutions such as web hosting services, data centre services, website development, and software development, among others. Company has its fully integrated data centres located in Nashik, Mumbai, and Bangalore.

### Analytical Approach

Acuite has considered the standalone business and financial profile of ESDS Software Solutions Private limited to arrive at the rating.

## Key Rating Drivers

### Strengths

- **Experienced management and established market position**

ESDS is promoted by Mr. Piyush Somani, who has around two-decade long experience in the IT industry, which has helped the company to establish a strong market position. ESDS has diversified its operations from one data centre to three data centres and developed various software which has helped the company to register strong CAGR of ~33 percent during the last 4 years ended FY2020. Further, the company has an operational track record of 15 years which has enabled the company to maintain healthy relations with its customers and suppliers. The company has a reputed client base, which includes both government bodies and private entities, with government entities contributing around 43 percent of the revenue.

Acuite believes that the company will derive benefit from its experienced management and established market position over medium to long term.

- **Strong debt protection metrics and capital structure**

Healthy profitability margins of the company has led to strong debt protections metrics marked by Interest coverage ratio (ICR) and Debt Service coverage ratio (DSCR) of 8.75 times and 2.56 times

respectively in FY2020 (Provisional). The net worth of the company improved to Rs.173.27 crore as on 31 March 2020 (Provisional) from Rs.110.67 crore as on 31 March 2019. The improvement is on account of fresh equity infusion of Rs.29.19 crore in FY2019 and Rs.11.44 crore in FY2020, and accretion of reserves.

The company has followed conservative financial policy in the past as reflected by gearing levels of 0.29 times as on 31 March 2020 (Provisional) as against 0.46 times as on 31 March 2019. The gearing levels of the company is expected to remain low over the medium term in the absence of any debt funded capital expenditure and fresh equity infusion during FY2021. Financial leverage of the company is low marked by Debt-EBITDA of 0.88 times in FY2020 (Provisional) as against 1.02 times in FY2019.

Acuite believes that the financial risk profile of the company to remain healthy backed fresh equity infusion, which will strengthen the net worth and working capital requirements majorly been funded by net cash accruals.

### **Weaknesses**

#### **• Elongated debtors' collection period**

The operations of the company are working capital intensive marked by Gross Current Assets (GCA) of 250 days in FY2020 (Provisional) as against 294 days in FY2019, which is on account of deposits with government authorities of Rs.10.47 crore, advance tax paid of Rs.13.98 crore and elongated debtors' collection period. The company has registered ~40 percent sales in the last quarter of the FY2020, thus the debtor days stood high at 152 days for FY2020. Acuite believes the working capital requirements to remain higher over the medium term on account of high collection period and significant amount of deposits with the government authorities.

#### **• Competitive industry**

ESDS has a moderate scale of operations with operating income at Rs.168.74 crore in FY2020 (Provisional) as against Rs.140.80 crore in FY2019 and it operates in a fragmented and competitive industry, where it faces high competition from well established companies with high resources. Company has been diversifying its offerings, in the past, to be able to cater to customers from various industries and requirements.

Acuite believes that the addition of new customers will be critical in order to scale up its operations over the medium term.

### **Liquidity Profile: Strong**

The company has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. ESDS generated cash accruals of Rs.50.07 crore in FY2020 (Provisional) against debt obligations of Rs.15.60 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.60 crore to Rs.114 crore during FY2021-23. The average fund-based working capital utilization stood at ~70 percent for the past twelve months ended May 2020. The current ratio stands at 4.46 times as on 31 March 2020 (Provisional). Fresh capital has been infused by the PE investor in May-2020, which has further strengthened the liquidity.

Going forward, Acuite expects the liquidity position to remain strong over the medium term on account of healthy net cash accruals and absence of any debt funded capex.

### **Rating Sensitivities**

- Lower than expected revenue growth and reduction in profitability margins
- Deterioration in financial risk profile and liquidity position
- Higher than expected dilution in promoter stake

### **Outlook: Stable**

Acuite believes ESDS will maintain a 'Stable' business risk profile on the back of experienced management and strong market position. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while significant improvement in operating margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital management, thereby impacting its financial risk profile, particularly its liquidity.

### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	168.74	140.80
PAT	Rs. Cr.	21.60	20.11
PAT Margin	(%)	12.80	14.28
Total Debt/Tangible Net Worth	Times	0.29	0.46
PBDIT/Interest	Times	8.75	7.30

### Status of non-cooperation with previous CRA:

India Ratings and Research vide its press release dated July 20, 2020 has denoted ESDS Software Solutions Private Limited as 'Ind BB/A4+; Issuer Not Co-operating' on account of lack of adequate information required to monitor the ratings.

### Any Material Covenants

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Application of Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Up to 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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/ Stable (Assigned)
Term Loan-1	Apr-2019	10.00%	Apr-2024	7.64	ACUITE A-/ Stable (Assigned)
Term Loan-2	Sep-2018	10.00%	May-2021	1.18	ACUITE A-/ Stable (Assigned)
Term Loan-3	Jan-2019	12.25%	Apr-2024	9.77	ACUITE A-/ Stable (Assigned)
Term Loan-4	May-2020	12.25%	May-2025	2.40	ACUITE A-/ Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.26	ACUITE A-/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	13.75	ACUITE A1 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A1 (Assigned)

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### About Acuité Ratings & Research:

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