Press Release

Vsoft Technologies Private Limited

January 22, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 55.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** and the short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs.55.00 Cr bank facilities of Vsoft Technologies Private Limited (VTPL). The outlook is **'Stable'**.

Incorporated in 2004, Vsoft Technologies Private Limited (VTPL) is a Hyderabad (Telangana) based company, promoted by Mr. Murthy Veeraghanta. VTPL is engaged in providing Information technology (IT) and Information technology enabled services (ITes) primarily to banking, financial services and insurance sector (BFSI). It offers wide range of technology products and services along with platform-based BPO services which cover payment systems and core banking solutions.

About Group Company:
VSoft Corporation was incorporated in January 1996. The Company develops, sells, and implements software packages and innovative solutions, serving customers primarily in the financial services industry within the United States of America.

Analytical Approach
Acuité has consolidated the financial and business risk profiles of Vsoft Technologies Private Limited (VTPL) and its 100 percent wholly-owned subsidiary - VSoft Corporation (VC), on account of their common management and brand name, strong operational and financial linkages. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Extensive experience of the management team, strong vintage client base and variegated products and services' revenue mix**
  VTPL, incorporated in 2004, provides information technology-based products and solutions to the BFSI segment. The promoter - Mr Murthy Veerghanta has an experience of over 2 decades in the core banking IT solutions business and Software Development and Services. The long track record of operations and experience of the management supported by experienced management team has helped the company develop healthy relationships with its key customers. VTPL offers relatively complex services supported by its expertise, execution capabilities and long-standing relationships with its clients helped in strengthens its value proposition, it also helps in generating higher margins. VTPL has strong counterparties in Government, private, public sector majorly banks. VTPL offers services though software delivery and revenue models – License sale (one-time revenue which is received on milestone basis along with AMC (recurring income on a monthly basis and Application Service Provider (ASP)/Usage/outsourcing model (used mostly for Core banking solutions) being a recurring revenue model. VTPL has variegated products and solutions' wise revenue mix; derives around 75 percent of its consolidated revenue from its ITes named 'Onview – customer solution' for rendering Cheque Truncation System (CTS) Solutions and MMS-ACH Payments System. Remaining 35 percent is majorly from its ITes 'WINGS' providing core banking solutions and others like ROOTS. Call center's contribution to the overall revenue has been minuscule over the last 3 years ending FY20 though. . Acuité believes that experienced management, strong and vintage client base along with variegated revenue mix will continue to aid VTPL's business risk profile over the medium term.

- **Capex and diversification on a smaller scale with entry in Call Center and Data Center for health sector**
  To restore the downfall in revenue from the banking segments' products and solutions due to the on-going bank mergers, VTPL has tried to diversify by grasping on the opportuning of the present pandemic. VTPL has secured a contract of maintenance of Emergency Response Centre (ERC) for 108 and 104 ambulance services in Andhra Pradesh for ~Rs. 201 Cr for a period of 7 years. Out of the total, about Rs.70 Cr will be towards supply of Capex (infrastructure) and balance Rs.130 Cr towards Opex (manpower & AMC) which will be billed on quarterly basis over a period of 7 years from the date of COD. For this capex, VTPL got about 2200 square yards from Andhra Pradesh Government and build about 90000 sq feet building in Mangalagiri, AP which is in final stage. It has already recruited 90 employees in Mangalagiri. Due to this order, VTPL is expected to receive about Rs.60 Cr plus in FY21 & FY22 as a one-time income. VTPL has supplied almost all the Capex and project is live on pilot/temporary basis from 1st July 2020. The project is permanently expected to start operations from January end, 2021. Acuite believes that stability of the project along with timely receivables would remain the key monitorable over the medium term as VTPL is planning to expand this further by way of securing other contracts in this segment.

- **Moderate financial risk profile**
  VTPL's financial risk profile is moderate, marked by moderate capital structure and healthy debt protection metrics. VTPL has tangible net worth of Rs.30.13 Cr (excluding intangible assets Rs.164.21 Cr) as on March 31, 2020 as against Rs.30.09 Cr (excluding intangible assets Rs. 154.92 Cr) as on March 31, 2019. VTPL capital structure is moderate marked by its gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 1.00 times and 4.29 times respectively, as on March 31, 2020 vis-à-vis 1.00 times and 3.43 times as on March 31, 2019. Debt protection metrics are healthy, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 8.35 times and 0.52 times, respectively, in FY2020 vis-à-vis 14.59 times and 0.66 times for FY2019. VTPL generated cash accruals of Rs.26 to 30 Cr during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.1.91 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.20-25 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.4-6 Cr during the same period. Acuité believes that in the financial risk profile is expected to similar levels over the medium term, with healthy operating profitability.

Weaknesses

- **Working Capital Cycle marked by high GCA days**

VTPL's working capital is marked by high gross current assets (GCA) days of about 264 days in FY20 (FY19: 208 days). This was largely due to high receivable days to 210 in FY20 (FY19: 185). The receivable days are comparatively high due to debtors, including retention money and company billing on milestone basis. VTPL's is partially offset by its high creditor's days of 275 in FY20 (FY19: 202). The high GCA days led to high utilization of its bank line at 82 percent for the eleven months trailing November 2020. Acuité expects to remain working capital intensive at the similar levels over the medium term on account of high retention money and milestone billing.

- **Moderate scale of operations with muted revenue growth in last four years and High dependence on the BFSI sector for revenue**

The domestic IT industry is characterised by large players enjoying scale benefits and higher bargaining power. With a revenue of Rs. 160.51 Cr in FY20 and revenue remaining flat over the last 3 years ending FY20, , the company's scale of operations remains moderate, restricting its ability to enjoy scale benefits and pricing flexibility. The impact of Covid-19 on end-user industries along with the on-going bank mergers has affected the company's revenues in the recent quarters. That said, with focus on margin-accretive contracts and several cost measures, VTPL's profit margins have expanded to 20.52 percent from 15.61 percent in FY2018. Though, the company has added new clients every year, revenue remains restricted to the BFSI sector. VTPL derives a significant proportion of its revenues from the BFSI segment; this makes its operations vulnerable to any slowdown in the segment. Acuité believes that VTPL's scale of operation will grow yet remain moderate along with significant segment concentration risk in its revenue profile.

- **Vulnerability of profitability to competitive pressures**

The intense competition in the IT industry, especially the global landscape with larger peers and uncertainty on account of the evolving visa and immigration legislations in key developed markets are challenges that the industry faces. Like other companies in the industry, VTPL also faces challenges with respect to employee attrition rates. With rapid evolution of the Indian IT-enabled services sector, competition is intensifying as more companies vie for a share of the outsourcing pie.
VTPL has to compete with multiple players in most of the verticals within the IT services business. Further, the

IT industry is susceptible to risks related to technological changes, competition from substitutes and shifts in customer's preferences. This necessitates continued investments in technology upgradation.

Diversification efforts will support mitigation of the technological obsolescence risk. The profitability of the company remains exposed to adverse foreign exchange movement, given that most of its revenues are generated in USD a significant part of its expenses are in INR. While the weakening of the global macro-economic outlook in the wake of the Covid-19 pandemic is likely to impact the revenue growth and profitability in the near term.

Liquidity Position: Adequate

The Company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations; albeit constrained by highly utilized bank lines. VTPL generated cash accruals of Rs.26 to 30 Cr during the last three years through FY18-20, while its maturing debt obligations were in the range of Rs.1.91 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.20-25 Cr during FY21-23 while their repayment obligations are estimated to be around Rs.4-6 Cr during the same period. This will be sufficient to meet the incremental capex and working capital requirements VTPL's working capital is elongated reflected by its GCA days about 264 days in FY20 (FY19: 208 days) leading to highly utilised bank lines at 82 percent for the eleven months trailing November 2020. The Company maintained cash and bank balances of Rs. 2.08 Cr as on 31 March 2020. The current ratio stands moderate at 1.27 times as on 31 March 2020. Acuité believes that the liquidity of the VTPL is likely to remain adequate over the medium term on account of healthy cash accruals against its moderate repayment obligations.

Rating Sensitivities

- Higher-than-expected operating income (OI) along with improvement in profitability
- Improvement in receivable cycle

Material covenants

None

Outlook: Stable

Acuité believes that VTPL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability, while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	160.51	172.36
PAT	Rs. Cr.	5.74	7.12
PAT Margin	(%)	3.58	4.13
Total Debt/Tangible Net Worth	Time0073	1.00	1.00
PBDIT/Interest	Times	8.35	14.59

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
- Entities In Services Sector -https://www.acuite.in/view-rating-criteria-50.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

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

Rating History (Upto 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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB/Stable (Assigned)
Working Capital demand loan	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB/Stable (Assigned)
Guaranteed Emergency Credit Line (GECL)	Not Applicable	Not Applicable	Not Applicable	4.90	ACUITE BBB/Stable (Assigned)
FCNR term loan	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BBB/Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3+ (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.10	ACUITE A3+ (Assigned)

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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, it has assigned more than 8,000 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.