

Press Release
Vsoft Technologies Private Limited
April 05, 2024



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.00	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	32.90	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	22.10	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	69.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.55.00 Cr. bank facilities of Vsoft Technologies Private Limited (VTPL). The outlook is '**Stable**'. Acuite has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.14.00 Cr. bank facilities of Vsoft Technologies Private Limited (VTPL). The outlook is '**Stable**'.

Rationale for Reaffirmation

The rating takes into account stable operating performance of the group, however, is constrained by stretched receivable position and modest debt protection metrics. The Debt Service Coverage Ratio (DSCR) stood at 0.87 times for FY2023 against 1.77 times for FY2022. Intensive working capital operations with by high GCA days of 349 days for FY2023 as against 380 days for FY2022. The operating income of VTPL stood at Rs.72.49 Cr. in FY2023 as against Rs.71.64 Cr. in FY2022 and operating margin at 16.01% in FY2023 as against 21.06% in FY2022. Going forward, the company's ability to scale up its operations while maintaining profitability margins and capital structure will remain a key rating monitorable.

About the Company

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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone view of the business and financial risk profile of Vsoft Technologies private Limited (VTPL) to arrive at the rating.

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 through software delivery and revenue models – License sale/Usage/outsourcing model (used mostly for Core banking solutions) being a recurring revenue model.

However, the operating income of VTPL stood stagnant over the past two years at Rs.72.49 Cr. as on FY2023 as against Rs.71.64 Cr. in FY2022. The EBITDA margins are volatile in nature and stood at 16.01% in FY2023 as against 21.06% in FY2022. The reason for fluctuations in operating margin as the income from maintenance & trading products generates low margin comparatively to income from software developments & license arrangements. Further, the company has achieved a revenue of Rs.59.84 Cr. till 9MFY24 and has Outstanding order book of Rs.200.14 Cr. as on 28 February 2024 providing the medium-term revenue visibility.

Acuite 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.

Moderate financial risk profile albeit low debt service coverage ratio (DSCR)

VTPL's financial risk profile is moderate, marked by low gearing ratios, moderate capital structure and healthy debt protection metrics. VTPL has tangible net worth of Rs.158.46 Cr. as on March 31, 2023. The total debt outstanding of Rs.36.52 crore consists of working capital borrowings of Rs.23.24 crore, unsecured loans of Rs.0.37 crore term loan of Rs.7.94 crore and current maturities for the term loan is Rs.4.97 Cr. as on 31 March, 2022. The gearing level of the company stood low at 0.23 times as on 31 March, 2023 as against 0.27 times as on 31 March, 2022. The Debt –EBITDA of VTPL stood moderate at 3.05 times as on 31 March 2023, as against 2.77 Cr. as on 31 March 2022. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood low at 0.32 times as on March 31, 2023 against 0.41 times as on March 31, 2022. The coverage ratios of the company are low with Interest Coverage Ratio (ICR) of 2.92 times for FY2023 against 3.98 times for FY2022. Also, the Debt Service Coverage Ratio (DSCR) stood at 0.87 times for FY2023 against 1.77 times for FY2022. The NCA/TD (Net Cash accruals/Total debt) of the company stood at 0.16 times for FY2023.

Acuite believes the financial risk profile of VTPL will improve owing to expected improvement in the operating margin in FY2024.

Weaknesses

Intensive working capital operations

The working capital operations of the company are intensive in nature marked by high GCA days of 349 days for FY2023 as against 380 days for FY2022. The high GCA days is on account of high debtor days of 313 days for FY2023 compared against 348 days for FY2022. The creditor days of the company stood at 51 days for FY2023 as against 110 days for FY2022. The average bank limit utilization stood at high for fund-based limits 88 - 98 per cent and moderate utilisation for non -fund based limits of 53.17 percent for nine months ended December 2023. Acuite believes that VTPL continues to have intensive working capital management owing to its nature of operations.

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.

High dependence on the BFSI sector for revenue

The company is adding new clients every year and has diversified client base. However, the 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.

Rating Sensitivities

- Higher-than-expected operating income (OI) along with stable profitability margins.
- Any deterioration in working capital cycle and liquidity profile of the company.

Liquidity Position: Stretched

The liquidity position of the company is stretched, the company generated cash accruals of Rs.5.90 crore in FY2023, while its' maturing debt obligation were in the range of Rs.7.39 Cr. for the same period. The short fall of the debt obligations was supported timely support from group entity. The cash accrual of the company is estimated to remain around Rs.10.26 crore to Rs.13.58 crore during 2024-26 against repayment obligations of around Rs.4.97-2.87 crore during the same period.

The average bank limit utilization stood at around 89.41 per cent for twelve months ended December, 2023. The company maintained unencumbered cash and bank balances of Rs.0.07 crore as on 31 March 2023. The current ratio of the company has improved to 1.63 times as on 31 March 2023.

Acuite believes that Liquidity position of the company will improve over the medium term owing to improvement in the net cash accruals.

Outlook: Stable

Acuite 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 VTPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than expected debt funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	72.49	71.64
PAT	Rs. Cr.	2.45	5.00
PAT Margin	(%)	3.38	6.98
Total Debt/Tangible Net Worth	Times	0.23	0.27
PBDIT/Interest	Times	2.92	3.98

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

Not Applicable

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>

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
17 Jul 2023	Bank Guarantee (BLR)	Short Term	12.00	ACUITE A4+ (Reaffirmed & Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE BB+ Not Applicable (Reaffirmed & Issuer not co-operating*)
	Covid Emergency Line.	Long Term	4.90	ACUITE BB+ Not Applicable (Reaffirmed & Issuer not co-operating*)
	Foreign Currency Term Loan	Long Term	12.00	ACUITE BB+ Not Applicable (Reaffirmed & Issuer not co-operating*)
	Proposed Bank Guarantee	Short Term	10.10	ACUITE A4+ (Reaffirmed & Issuer not co-operating*)
	Proposed Cash Credit	Long Term	5.00	ACUITE BB+ Not Applicable (Reaffirmed & Issuer not co-operating*)
	Working Capital Demand Loan (WC DL)	Long Term	3.00	ACUITE BB+ Not Applicable (Reaffirmed & Issuer not co-operating*)
19 Apr 2022	Bank Guarantee/Letter of Guarantee	Short Term	12.00	ACUITE A4+ (Downgraded & Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE BB+ Not Applicable (Downgraded & Issuer not co-operating*)
	Covid Emergency Line.	Long Term	4.90	ACUITE BB+ Not Applicable (Downgraded & Issuer not co-operating*)
	Foreign Currency Term Loan	Long Term	12.00	ACUITE BB+ Not Applicable (Downgraded & Issuer not co-operating*)
	Proposed Bank Guarantee	Short Term	10.10	ACUITE A4+ (Downgraded & Issuer not co-operating*)
	Proposed Cash Credit	Long Term	5.00	ACUITE BB+ Not Applicable (Downgraded & Issuer not co-operating*)
	Working Capital Demand Loan (WC DL)	Long Term	3.00	ACUITE BB+ Not Applicable (Downgraded & Issuer not co-operating*)
22 Jan 2021	Bank Guarantee (BLR)	Short Term	12.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB Stable (Assigned)
	Covid Emergency Line.	Long Term	4.90	ACUITE BBB Stable (Assigned)
	Proposed Bank Guarantee	Short Term	10.10	ACUITE A3+ (Assigned)
	Proposed Cash Credit	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	12.00	ACUITE BBB Stable (Assigned)
	Working Capital Demand Loan (WC DL)	Long Term	3.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	12.00	ACUITE A4+ Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.07	ACUITE A4+ Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A4+ Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A4+ Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	24.00	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Covid Emergency Line.	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.22	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Foreign Currency Term Loan	01 Feb 2020	Not avl. / Not appl.	30 Jun 2025	Simple	3.42	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Bank Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.03	ACUITE A4+ Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.41	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.85	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Term Loan	10 Aug 2023	Not avl. / Not appl.	10 Aug 2031	Simple	1.00	ACUITE BB+ Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Term Loan	10 Aug 2023	Not avl. / Not appl.	10 Aug 2031	Simple	14.00	ACUITE BB+ Stable Assigned

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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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