

## Press Release

### Aparajitha Corporate Services Private Limited

September 07, 2021

### Rating Downgraded and Withdrawn



<b>Total Bank Facilities Rated*</b>	Rs. 160.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB+ (Downgraded from ACUITE A-; Withdrawn)

\* Refer Annexure 1 for details

### Rating Rationale

Acuite has downgraded and withdrawn its long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B 'Plus'**) from '**ACUITE A-**' (read as **ACUITE A 'Minus'**) on the Rs.160.00 Cr Non-Convertible Debentures (NCDs) of Aparajitha Corporate Services Private Limited (ACSPL). This rating withdrawal is in accordance with the Acuite's policy on withdrawal of rating. The rating is being withdrawn on account of request received from the company and no-due certificates received from the investors and debenture trustee stating the full redemption of the NCDs.

### Reason for rating downgrade

The rating downgrade is primarily driven by the deterioration in scale of operations marked by the deterioration in the profitability margins and financial risk profile of the company in FY2021. ACSPL's revenue in the FY2021 stood at Rs.325.81 Cr as against Rs.372.89 Cr in FY2020. Due to the slowdown in economy during the FY2021 on account of outbreak of Covid-19 pandemic, ACSPL (post-merger with ACGPL) witnessed deterioration in its profitability margins and recorded operating profit (EBITDA) margin and net profit margin of 13.79 per cent and 2.66 per cent respectively in FY2021 as against 14.80 percent and 11.29 per cent, respectively, in FY2020. The deterioration in profitability levels vis-à-vis increase in the finance cost on account of NCDs has led to deterioration in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.95 times and 1.42 times respectively in FY2020 as against 55.41 and 19.46 times, respectively in the previous year. The working capital management of the company is moderate in nature as evident from GCA days of 94 days. The leverage position of the company has deteriorated as evident from the increase in gearing ratio to 6.40 times as on March 31, 2021 from 0.01 times as on March 31, 2020. The net worth of the company stood at Rs.15.81 Cr as on 31 March, 2021 as against Rs.177.98 Cr as on 31 March, 2020. This deterioration is on the account of accounting adjustment recorded on account of merger with ACGPL during the period.

### About the Company

Incorporated in November 2000 and based in Madurai (Tamil Nadu), Aparajitha Corporate Services Private Limited (ACSPL), is the flagship company of the Aparajitha group promoted by Dr. Bharath Krishna Sankar and Mr. Nagaraj Krishnan. ACSPL is engaged in providing end to end HR and compliance services & solutions. The group focus on compliance services for non-federal laws such as on Compliance audit, Establishment compliance services, Factory compliance services, Contract labor regulation services, Contract labor compliance services, Flexi staffing services, Payroll services, Payroll compliance services and Industrial Licensing services to various organizations. The company has presence in 145 locations all over the country with 28 branches catering to the needs of 1000+ clients.

### Analytical Approach

Acuite has consolidated the financial and business risk profiles of ACSPL, its subsidiaries and holding company, Aparajitha Dynamic Synergies Private Limited (ADSPL), Diksha Corporate Services Private Limited (DCSPL), Aparajitha Software Services Private Limited (ASSPL) and Aparajitha Capital Growth Private Limited (ACGPL). These are hereinafter referred to as Aparajitha group on account of their common management and brand name, strong operational and financial linkages of the business segments in India.

Extent of Consolidated: Full.

Please refer Annexure 2 - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

### **Merger of ACGPL into ACSPL**

The holding company - Aparajitha Capital Growth Private Limited (ACGPL) has merged into ACSPL in FY2021. The final hearing on the merger has come in January 2021 at National Company Law Tribunal (NCLT). The company was granted In-principle approval from BSE for the arrangement being made between ACGPL and ACSPL. Post-approval of the merger by NCLT, the NCDs in the books of Aparajitha Capital Growth Private Limited shall vest in Aparajitha Corporate Services Private Limited. The NCDs were issued and subscribed by a financial institution named 'Investec Bank plc ("Investec")' in November, 2019. The rationale behind the merger is to get operational and group synergies. In 2014, Everstone Capital Partners II LLP bought in the equity stakes of ACSPL to the extent of 32.31 percent of total shareholding pattern. In 2018, Everstone Capital indicated to exit from ACSPL and was looking for a potential buyer offering the desired valuation. In 2019, ACGPL showed interest to buy the equity holdings of ACSPL from Everstone Capital by raising a Non-Convertible Debenture of amount Rs.170 Cr via Aparajitha Capital Growth to fund the purchase of equity from Everstone. The NCD was allotted in November 2019 and listed on Bombay Stock Exchange (BSE) with maturity of 4 years. In August 2020, ACGPL has exercised the call option of NCD and redeemed Rs.10.5 Crore out of Rs.170 Cr NCD. Post-merger, the shares of ACSPL were allotted to incoming shareholders of ACGPL, on the basis of valuation done by registered valuer and as indicated by the NCLT in the merger order using the appropriate swap ratio. The merger has resulted in the group becoming a closely-held promoter group, with only the founder-promoters being the shareholders. As on March 31, 2021, the merger between ACSPL and ACGPL was completed with successful change in entity of the NCDs listed on BSE.

### **Key Rating Drivers**

#### **Strengths**

- **Experienced management; established presence and track record of operations in a niche market**

The group is promoted by Dr. Bharath Krishna Sankar (Chairman) and Mr. Nagaraj Krishnan (Managing Director) who have around 2 decades of extensive experience in the Business services & consultancy segment. The group started its operations being a sole provider of compliance-related services pertaining to Non-Federal Laws, State Laws, Industrial Laws, Labour Laws, Municipality Laws amongst others, through establishment of its standalone entity - Aparajitha Corporate Services Private limited (ACSPL). It gradually established its subsidiaries over the years to provide add-on services on demand of its existing clients. Being one of the first Indian company in 2000s to venture into the HR compliance industry, it has gained a competitive advantage of being a First Mover and has become a one-point solution for all client's needs. Promoters' extensive experience and their expertise in the relative segment has helped the group achieve a leadership position in this niche core HR compliance service provider market. Acuite believes that the group will continue to derive benefits from its experienced management and established presence and track record of operations over the medium term.

- **Diversified Service offerings to its elite clientele; low customer concentration risk in its revenue profile**

The group offers a wide range of well-diversified services relating to compliance industry, ranging from consultation to Business start-ups, Shops, Retail outlets, Establishments, Factories, Offices, Mines, Plantations, other legal entities, and entities involved in Merger & Acquisitions. The company has in past serviced around 30000 units, 1000+ clients with a presence of 1500+ employees in 145 locations around the country. The company has various (expand SBUs) SBUs allocated for respective service offering. Major verticals of the company are involved in Shops & Establishments Compliance, Factory Compliance and CLRA act Compliance. Aparajitha Group has been able to cater to the needs of large corporate houses and MNCs namely ITC Limited, Capgemini, InstaKart Services, MRF, Hindustan Zinc, Reliance Retail Jio, Tata Communication, TVS & Sons, Amazon Seller Services and Godrej Properties. The Group has successfully been able to retain its clients over the course of business. Around 35 percent of the present client base has a vintage of more than 15 years and has been associated with the group since its incorporation. Additionally, the groups' customer attrition amounts to only 1-2 percent only per year. No single client contributes more than 10 percent to the group's revenue. In FY2020, the top 20 clients contributed Rs.37.97 Cr towards the consolidated revenue, amounting to 10.18 percent of consolidated revenue; thereby, indicating low customer concentration risk in its revenue profile. Acuite believes that the group's revenue profile will remain diversified in terms of offerings and clientele over the medium term due to its serviceability to 1000+ clients at any given point of time.

- **Potential to capture the untapped market; Growth prospects**

In India, major reasons for non-compliance are identified as Lack of knowledge of the laws, Lack of access to legal updates, and absence of compliance monitoring system. Major proportion of small, medium and large corporates don't possess detailed information of all acts and compliances adheres to their nature of business; Stakeholders are mostly unaware of the financial, reputational and operational repercussions of

non-compliance to the laws set up by the governing and regulatory bodies. Acuite believes that these factors aids Aparajitha Group in catering to the needs of a well untapped market with extensive demand for compliance service provider dealing with Non-federal laws compliance.

### Weaknesses

#### • Merger of holding company (ACGPL) into ACSPL resulting deterioration in financial risk ratios and Unfavorable leverage position in FY2021

As under the merger, the NCDs issued by ACGPL has shifted to the books of ACSPL, the interest obligation from the borrowings has resulted in stretch in the financial position of the company in FY2021. The company has maintained sufficient EBITDA margin to ensure timely payment of interest and principal obligation arising from February, 2021. Post-merger of ACGPL into ACSPL, with the issued NCDs on the consolidated books of accounts, the networth of the company has been knocked-off to the extent of the outstanding NCDs amount of Rs.159.50 Cr as on March 31, 2021.

ACSPL's revenue in the FY2021 stood at Rs.325.81 Cr as against Rs.372.89 Cr in FY2020. Due to the slowdown in economy during the FY2021 on account of outbreak of Covid-19 pandemic, ACSPL (post-merger with ACGPL) witnessed deterioration in its profitability margins and recorded operating profit (EBITDA) margin and net profit margin of 13.79 per cent and 2.66 per cent respectively in FY2021 as against 14.80 percent and 11.29 per cent, respectively, in FY2020. The deterioration in profitability levels vis-à-vis increase in the finance cost on account of NCDs has led to deterioration in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.95 times and 1.42 times respectively in FY2020 as against 55.41 and 19.46 times, respectively in the previous year.

The net worth of the company stood at Rs.15.81 Cr as on 31 March, 2021 as against Rs.177.86 Cr as on 31 March, 2020. This deterioration is on the account of accounting adjustment recorded on account of merger with ACGPL during the period. The gearing level (debt-equity) stands deteriorated at 6.40 times as on 31 March, 2021 as against 0.01 times as on 31 March, 2020, the deterioration is on the NCDs transferred into the books of ACSPL post-merger with ACGPL during the same period. TOL/TNW (Total outside liabilities/Total net worth) has deteriorated and stands at 10.20 times as on 31 March, 2021 against 0.30 times in previous year. The total debt of Rs.101.19 Cr as on 31 March, 2021 consist of long-term debt of Rs.66.68 Cr, short term debt of Rs.1.16 Cr and maturing portion of long term borrowings of Rs.33.35 Cr. NCA/TD (Net cash accruals to total debt) stands low at 0.13 times in FY2021 as against 25.71 times in FY2020. Acuite expects the leverage position to improve over the medium to long term period on account of prepayment of NCDs.

#### • Uncertainty in Business risk profile; Ease of compliance from statutory and regulatory bodies

Aparajitha Group core business involved in providing compliance services can be effected by easing of compliance and regulations to be followed in course of business by the statutory and regulatory bodies to improve the ease of doing business in the economy. Compfie, the cloud based compliance monitoring software provided by the group can be effected by Government of India launching similar portal/platforms for further ease of business. Acuite believes that the group can face uncertainty in business over medium to long term horizon with improving ease of doing business in the country.

### Liquidity Position: Adequate

As of March 31, 2021, ACSPL has adequate liquidity with moderate net cash accruals and liquid investments to meet its upcoming obligations w.r.t. to the NCDs. The company had no significant reliance on external debt until FY2020 as it had prudent cash flows being generated from its service nature of business. The company has generated cash accruals in the range of Rs.13.36-46.79 Cr during last three years ending FY2021. To meet the obligations of the NCDs, ACSPL had been maintaining Liquid Investments in various arbitrage mutual funds. This has ensured that the company has enough liquidity to pay its first scheduled redemption of Rs.70 Cr in February 2021 (out of which Rs.10.5 Cr has already redeemed). As of March, 2021, the company has Rs.47.65 Cr worth of liquid investments in form of mutual funds. The NCDs were scheduled to redeemed in 4 years; first redemption of Rs.70 Cr in February 2021, second redemption of Rs.33.33 Cr in November 2021, third redemption of Rs.33.33 Cr in November 2022 and the final redemption of Rs.33.34 Cr in November 2023. However, the company has prepaid the investors and fully redeemed the NCDs on 13th July, 2021. Besides, the company has raised fresh borrowings of amount Rs.65.00 Cr in July, 2021.

### Rating Sensitivities

Not applicable

### Outlook: Stable

Not applicable

**About the Rated Entity - Key Financials (Consolidated)**

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	325.81	372.89
PAT	Rs. Cr.	8.67	42.08
PAT Margin	(%)	2.66	11.29
Total Debt/Tangible Net Worth	Times	6.40	0.01
PBDIT/Interest	Times	1.95	55.41

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

None

**Any other information**

None

**Material Covenants**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

**Note on complexity levels of the rated instrument**

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

**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01 February, 2021	Non-convertible Debentures (NCDs)	Long Term	160.00	ACUITE A-/Stable (Assigned)

**\*Annexure 1 – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Non-convertible Debentures (NCDs)	13-Nov-2019	Pre-Merger: 15.70% p.a. Post-Merger: 13.00% p.a.	13-Nov-2023	160.00	ACUITE BBB+ (Downgraded; Withdrawn)

**Annexure 2 – List of entities Consolidated**

Name of the Entities	Stake (%)	Location	Line of Activity
<b>Direct Subsidiaries</b>			
Aparajitha Dynamic Synergies Private Limited (ADSPL)	100.00	India	This entity is involved in providing Flexi-Staffing services to the clients of ACSPL.
Diksha Corporate Services Private Limited (DCSPL)	100.00	India	This entity is involved in providing Contract Labour Compliance Service such as Registration & license under Contract Labour Regulation and Abolition Act, maintaining records, registers, forms & notices under various legislations, Accident related compliance

			for contract workers, Retirement or terminal benefit for contract workers, Maternity benefits for contract labourers.
Aparajitha Software Services Private Limited (ASSPL)	100.00	India	Provides a monitoring software named as Compfie. It is a cloud-based global solution that smartly monitors the compliance status of the client. In house data processing center and also provides cloud storage solution to the clients. Compfie Law is one of the world's best online global repositories of laws and legal research resource combining Indian and international Acts, Rules, Regulations Schemes, statutory notifications, relevant case studies and legal perspective designed especially for the client.
<b>Group Company</b>			
Aparajitha Capital Growth Private Limited (ACGPL)#	-	India	ACGL is involved in printing of Abstracts and Notices under the labour laws and selling the same to clients of Aparajitha Corporate Services Private Limited. It is the holding company of ACSPL.

#ACGPL does not having significant operations and is not a core operating company of Aparajitha Group and has merged with ACSPL in FY2021.

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## About Acuité Ratings & Research:

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