

**Press Release**

**Provigil Surveillance Limited**

**January 10, 2022**

**Rating Assigned**



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Bank Ratings</b> <b>Loan</b>	15.00		ACUITE A3+   Assigned
<b>Bank Ratings</b> <b>Loan</b>	8.00	ACUITE BBB   Stable   Assigned	
<b>Total</b>	23.00	-	-

**Rating Rationale**

Acuite 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.23.00 crore bank facilities of Provigil Surveillance Limited (Provigil). The outlook is 'Stable'.

**Rationale for Rating Assigned**

The rating assigned takes into account the established track record of operations of the Provigil Group, experienced management and established relations with reputed clients. The ratings, further, also derive comfort from the healthy financial risk profile and improving operating performance of the Group. However the working capital intensive nature of operations remain as constraining factor for the rating. Provigil Group's ability to improve its scale of operations and working capital cycle will continue to remain a key rating sensitivity.

**About the Company**

Incorporated in April 1992 in Hyderabad, Telangana, Vivid Ventures Limited was earlier engaged in providing investment & advisory services, whereas its name was changed to Provigil Surveillance Limited (Provigil) in 2007, and is currently managed by Dr. Ravikumar Vemuru and Mr. Murali Mohan RVN. Ever since then, Provigil is engaged in providing video monitoring services to banks & financial institutions for ATMs, retail outlets, warehouses and government institutions. Provigil is a part of the larger Provigil Group (defined later in the document) which is also engaged in similar line of business. Further, the company also sells the video monitoring equipment to its customers, depending upon the nature of the order.

**About the Group**

iVIS International Private Limited (iVISI) and Provigil are together referred to as Provigil Group. Since 2007, Provigil was initially engaged in the business of providing technology and backend monitoring operations to US-based Provigil Inc. which was incorporated in 2006. However, Provigil Inc. has now been bought by a US-based private equity firm and looks after the US operations, whereas Provigil has been retained by the current management to look after the Indian operations. Currently, iVIS and Provigil are engaged providing video monitoring services to banks & financial institutions for ATMs, retail outlets, warehouses and government institutions. Further, both the companies also sell the video monitoring equipment to its customers, depending upon the nature of the order. Since Provigil as a brand has more experience in the market, most of the orders are currently routed through Provigil, although iVIS executes those orders.

## Analytical Approach

Acuité has consolidated the business and financial risk profiles of iVIS and Provigil to arrive at the rating. The consolidation is in the view of the similarities in the lines of business, operational & financial synergies and common management.

Extent of Consolidation: Full

## Key Rating Drivers

### Strengths

#### **Established track record of operations, experienced management and established relations with clients**

Provigil as a group possesses an experience of over 14 years in the video monitoring services segment. Prior to making a foray into India the promoters of the Group had presence in the US. Since 2007, Provigil was initially engaged in the business of providing technology and backend monitoring operations to US-based Provigil Inc. which was incorporated in 2006. However, Provigil Inc. has now been bought by a US-based private equity firm and looks after the US operations, whereas Provigil has been retained by the current management to look after the Indian operations.

The overall operations of Provigil Group are looked after by the Chairman - Dr. Ravikumar Vemuru and Director & CEO - Mr. Murali Mohan RVN, Dr. Ravikumar Vemuru is a doctor by profession, and had been practicing Gastroenterology in Texas, prior to the incorporation of the Provigil Group. On the other hand, Mr. Murali Mohan RVN is a Computer Science engineer and an MBA, who possesses a total experience of over 3 decades in software designing & development, having worked with many blue chip companies. They are also supported by other qualified & experienced senior management personnel.

Provigil Group has a reputed clientele base primarily consisting of banks and other Government authorities like State Bank of India, Bank of Baroda, Punjab National Bank, Central Bank of India, Director General of AP Police, FIS Payment Solutions & Services India Private Limited, Union Bank of India, Bank of Maharashtra, IDFC First Bank, IIFL Holdings Limited, Titan Company Limited, etc. With these customers, the Group enters into 5-year longterm contracts, which may be extendable for 2 more years. As on November 30, 2021, the Group possesses contracts worth ~Rs.425 crore in hand which shall yield revenues over FY22-FY27. Currently, the Group has installed 80,000 cameras at 20,000 sites and 4 lakh sensors, which send the data to the technical team on a continuous basis.

Acuité believes that the Group shall continue to benefit from the established track record of operations along with experienced management fuelling the growth impetus to the Group.

### Improving operating performance

The scale of operations of Provigil Group has been continuously increasing with the operating income having grown by 89.77% CAGR over FY19-FY21 (from Rs.25.50 crore in FY19 to Rs.49.74 crore and Rs.91.85 crore in FY20 and FY21 respectively) owing to a continuous additions of various sites of the existing clientele by way of renewal of existing contracts and entering into new contracts with the existing customers, as well as addition of new customers.

The profit margins of Provigil Group stood healthy with the operating margin having stood at 50.58% in FY21 as against 23.51% and 17.26% in FY20 and FY19 respectively, whereas the same has been continuously improving over FY19-FY21 owing to a proportionate decrease in various fixed & variable overhead costs on the back of a continuous and a healthy increase in the scale of operations over the same period. Given the healthy operating margin, the net margin has also been continuously improving from 17.26% in FY19 to 23.51% and 50.58% in FY20 and FY21 respectively.

Acuité believes that the profit margins are expected to remain healthy with the increase in the scale of operations in the future.

### Healthy financial risk profile

The financial risk profile of Provigil Group stood healthy marked by healthy capital structure,

comfortable debt coverage indicators and moderate tangible net-worth base. The capital structure stood at 0.51 times as on March 31, 2021 as against 0.42 times as on March 31, 2020. The Group follows a conservative leverage policy with higher use of shareholders' funds to manage working capital requirements. The tangible net-worth base stood moderate at Rs.80.76 crore as on March 31, 2021 as against Rs.59.29 crore as on March 31, 2020. Along with the comfortable capital structure, the debt coverage indicators also stood comfortable with an interest coverage and DSCR of 11.13 times and 5.21 times respectively in FY21 as against 8.09 times and 8.02 times respectively in FY20, on account of healthy profitability.

Acuité expects the Group's financial risk profile to remain healthy over the medium term, given the management's conservative leverage policy.

## **Weaknesses**

### **Working capital intensive nature of operations**

The operations of Provigil Group are working capital intensive in nature with GCA of 196 days as on March 31, 2021. The working capital intensive nature of operations is primarily on account of higher receivable period. Although the payment terms agreed upon with the customers (majorly banks) are 40-45 days, certain banks hold back the dues in form of retention up to 2-4 months, and release the same upon the installation of further sites.

Moreover, in certain cases, the banks approve the invoices raised, only after the certification of the newly installed sites. Given all of the above, the Group's receivable period stood elongated at 131 days in FY21 as against 120 days and 162 days in FY20 and FY19 respectively. The inventory holding period stood at 60 days in FY21 as against 93 days in FY20, whereas the inventory comprises of video surveillance parts. On the other hand, the creditors' days stood at 63 days in FY21 as against 51 days in FY20. However, the working capital requirements are majorly funded by way of internal accruals, and the average cash credit utilization in the last 6 months ended October 2021 remained low at 35.10% for the Group.

Acuité believes that the Group's ability to improve its working capital cycle will remain a key rating sensitivity.

### **Presence in competitive industry with inherent risks of tender-driven nature of operations**

Provigil Group is present in a competitive industry wherein it has to resort to competitive bidding procedure undertaken by various banks which float the tenders. The Group's revenues also depend on the overall tenders being floated by the banks increasing uncertainty. The segment also has larger participants with established presence in the IT security industry, thereby increasing the competition further. However, the Group's focus on hardware and artificial intelligence (AI) software has helped it to manage its operations with lower number of people and higher efficiency in threat recognition.

Acuité believes that the Group shall continue to face competitive pressures, despite having an edge over its competitors.

## **Rating Sensitivities**

- Slower-than-expected scale up of operations or significant deterioration in profitability
- Significant deterioration in the liquidity position or the overall financial risk profile

## **Material covenants**

None

## **Liquidity Position: Adequate**

The operations of the Group are working capital intensive in nature with GCA days and working capital cycle of 196 days and 128 days respectively in FY21 as against 286 days and 163 days respectively in FY20. However, the working capital requirements are majorly funded by way of internal accruals, whereas the average overdraft utilization in the last 6 months ended October 2021 stood moderately low at 35.10% for iVIS. Moreover, the Group generated healthy net cash accruals worth 10.74 crore and Rs.35.46 crore in FY20 and FY21 respectively as against moderate debt repayment obligations worth NIL and Rs.3.33 crore in those respective years. The Group is expected to generate net cash accruals in the range of

Rs.55-65 crore over FY22-FY23, as against the debt repayment obligations worth Rs.8.50-9.50 crore over the same period. Furthermore, the current ratio stood moderate at 1.71 times as on March 31, 2021 as against 1.67 times as on March 31, 2020. The liquidity profile of the Group is expected to remain adequate owing to healthy net cash accruals and high unutilized bank limits.

### Outlook: Stable

Acuité believes that Provigil will maintain a 'Stable' outlook on the back of the Group's management's extensive experience and established position in the video monitoring services segment. The outlook may be revised to 'Positive' if there is a significant increase in the Group's revenues without deterioration in the profitability. Conversely, the outlook may be revised to 'Negative' in case of a decline in the revenues, or significant deterioration in its capital structure or liquidity position.

### Other Factors affecting Rating

Not Applicable

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	91.85	49.74
PAT	Rs. Cr.	23.66	5.01
PAT Margin	(%)	25.76	10.08
Total Debt/Tangible Net Worth	Times	0.51	0.42
PBDIT/Interest	Times	11.13	8.09

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

Not Applicable

### Any other information

Not Applicable

### 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>
- 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:

Not Applicable

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3+   Assigned
Not Applicable	Not Applicable	Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB   Stable   Assigned
Not Applicable	Not Applicable	Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB   Stable   Assigned

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### About Acuité Ratings & Research

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