

Press Release

Provigil Surveillance Limited

April 10, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.00	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	15.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	23.00	-	-

Rating Rationale

Acuité has reaffirmed its 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 Reaffirmation

The rating reaffirmation takes into account the established track record of operations of the Provigil Group, experienced management and long standing relations with reputed clients. The rating also factors in the augmentation in business risk profile of the group reflected by improvement in operating performance. The rating also draws comfort from the healthy financial risk profile and adequate liquidity position of the Group. However, these strengths are offset by working capital intensive nature of operations and inherent risks on account of tender-driven operations of the Group.

About 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

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of iVIS INTERNATIONAL PRIVATE LIMITED and PROVIGIL SURVEILLANCE LIMITED 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.

Key Rating Drivers

Strengths

Established track record of operations, experienced management and reputed clientele

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 the Group are looked 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. The promoters are ably supported by other qualified & experienced senior management personnel. Furthermore, the Group has a reputed clientele base primarily consisting of banks mostly PSUs 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 long-term contracts, which may be extendable for 2 more years. 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 will continue to benefit from the established track record of operations along with experienced management fuelling the growth impetus to the Group.

Improvement in scale of operations

The scale of operations of the Group has witnessed continuous improvement over the years as reflected by increase in operating income by 84.66% y-o-y in FY2021 and by 44.59% y-o-y in FY2022, from Rs.49.74 crore in FY2020 to Rs.91.85 crore and Rs.132.81 crore in FY2021 and FY2022 respectively. The growth is majorly driven by 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 profitability of the Group remained healthy despite deterioration in the operating margins in FY2022. The operating margin stood at 42.40% in FY2022 compared against 50.58% in FY2021. The deterioration is majorly led by proportionate increase in administrative expenses. Also, the net margin stood at 20.18% in FY2022 and 25.76 % in FY2021. The group has recorded revenue of Rs.171.14 Cr till December 2022 with intercompany transaction of Rs.68.46 Cr and expecting to record net revenues of around Rs.135 Cr-Rs.145 Cr for FY2023.

Acuité believes that the improvement in scale of operations of the Group will sustaining profitability margins will continue to remain key monitorable going ahead.

Healthy financial risk profile

The financial risk profile of the Group stood healthy marked by healthy capital structure, comfortable debt coverage indicators and moderate tangible net-worth base. The capital structure stood comfortable with low gearing of 0.40 times as on March 31, 2022 as against 0.77 times as on March 31, 2021. The tangible net-worth base stood moderate at Rs.91.22 crore as on March 31, 2022 as against Rs.68.86 crore as on March 31, 2021. Along with the comfortable capital structure, the debt coverage indicators also stood comfortable with an interest coverage and DSCR of 12.63 times and 3.65 times respectively in FY2022 as against 11.13 times and 5.21 times respectively in FY2021, on account of healthy profitability. The total debt stood at Rs.36.11 Cr as on March 31, 2022 consist of long-term debt of Rs.14.98 Cr, unsecured loan from Directors/promoters of Rs.11.16 Cr and maturing portion of long term borrowings of Rs.9.98 Cr. The group has availed Rs.58.50 Cr of term loan in the month of February 2023, for the purpose of installation of the E-surveillance Camera's. Acuité expects the Group's financial risk profile to remain healthy over the medium term, ven with increase in debt levels in the FY2023.

Weaknesses

Working capital intensive nature of operations

The operations of Provigil Group are working capital intensive in nature with GCA of 172 days as on March 31, 2022. The working capital intensive nature of operations is primarily on account of higher receivable period despite agreed payment terms of 40-45 days with their customers (majorly banks). The reason for the same as certain banks holds back their 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 moderately improved at 86 days in FY2022 as against 131 days in FY2021. The inventory holding period stood at 35 days in FY2022 as against 60 days in FY2021, whereas the inventory comprises of video surveillance parts. The working capital requirements are majorly funded by way of internal accruals, and the average working capital utilization in the last 6 months ended December 2022 remained moderate at 60.19% for the IVIS.

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 liquidity position of the Group remains adequate marked by adequate net cash accruals of Rs.43.63 Cr and Rs.35.46 Cr in FY2022 and FY2021 respectively as against moderate debt repayment obligations Rs.8.66 Cr and Rs.3.33 Cr in those respective years. The Group is expected to generate net cash accruals in the range of Rs.45-55 Cr over FY23-FY25, as against the debt repayment obligations worth Rs.10.00 -12.65 Cr over the same period. Furthermore, the current ratio stood healthy at 2.11 times as on March 31, 2022 as against 1.71 times as on March 31, 2021. The working capital requirements are majorly funded by way of internal accruals, whereas the average CC utilization in the last 6 months ended December 2022 stood moderately at 60.19% for iVIS. Provigil is not maintaining have any fund based working capital facilities. The liquidity profile of the Group is expected to remain adequate owing to healthy net cash accruals and 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

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	132.81	91.85
PAT	Rs. Cr.	26.80	23.66
PAT Margin	(%)	20.18	25.76
Total Debt/Tangible Net Worth	Times	0.40	0.77
PBDIT/Interest	Times	12.63	11.13

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

Crisil vide its press release dated 25.08.2022, had rated the company to CRISIL BB+ (Stable) ; INC

Any Other Information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité 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
10 Jan 2022	Proposed Secured Overdraft	Long Term	2.00	ACUITE BBB Stable (Assigned)
	Proposed Secured Overdraft	Long Term	6.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A3+ (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 Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB Stable Reaffirmed

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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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