

## Press Release

Paradigmit Technology Services Private Limited (Erstwhile E Centric Solutions P

October 10, 2022



## Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BBB   Stable   Downgraded	-
Bank Loan Ratings	22.00	-	ACUITE A3+   Downgraded
Total Outstanding Quantum (Rs. Cr)	42.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has downgraded its long term rating to ACUITE BBB (read as ACUITE triple B) from ACUITE BBB+ (read as ACUITE triple B plus) and short term rating to ACUITE A3+ (read as ACUITE A three 'plus') from ACUITE A2 (read as ACUITE A two) on the Rs.42.00Cr bank facilities of Paradigmit Technology Services Private Limited (PTSPL) ERSTWHILE E CENTRIC SOLUTIONS PRIVATE LIMITED). The outlook is 'Stable'.

The rating downgrade is due to decline in revenue on account of demerger, moderately intensive working capital operations, customer concentration risk on the revenue profile and susceptibility to volatility in scale of operations. Further, it also factors in higher reliance on bank borrowings with an average utilization of more than 90% for 6 months ended June 2022. However, the rating takes into account established track record of operations, extensive experience of promoters and moderate financial risk profile.

## About the Company

Paradigmit Technology Services Private Limited (PTSPL), incorporated in 2002, is a Hyderabadbased company promoted and managed by Mr. G Sridhar Raju. PTSPL is engaged majorly in providing end-to-end IT and Non-IT staffing solutions to government entities and corporates. It is also engaged in e-governance projects in India and off-shoring solutions ranging from strategy consulting, business analysis, project management, software development, among others.

## Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of PTSPL to arrive at the rating.

## Key Rating Drivers

## Strengths

- **Extensive industry experience of the promoters, established track record, and healthy order book providing near term revenue visibility.**

Started as a private limited company by Mr. Gadhi Sridhar Raju, Gadhi Annapurna Venkata and Rudraraju Prasada Raju Venkata Vara in 2002, ECS's management has nearly 2 decades of experience in IT industry, primarily in Software and Web Application Development. PTSP's successful track record in both IT and Non-IT solutions segment, coupled with its diverse service offerings, helped the company to efficiently source and mobilise large manpower and aided in establishing a wide customer base with several reputed private corporates, MNCs as well as government departments/entities of various states. PTSP executes most of the contracts on long agreement basis. This provides similar order book and ensures steady flow of revenue over the medium term. Apart from the current order book, the company has got new order from West Bengal government worth Rs.120Cr, which is to be completed in phases. Acuite believes that extensive experience of promoters and healthy order book position will continue to benefit the company over the medium term.

- **Moderate financial risk profile**

PTSP gearing is healthy at 0.16 times as on March 31, 2022 (Provisionals) against 0.23 times as on March 31, 2021. The company has healthy Net worth at Rs.105.76 Cr as on March 31, 2022 (Provisional) against Rs.100.41Cr for previous year. Net worth Increased by Rs.5.44Cr on account of moderate accretions of net profit in the reserves. Total outside liabilities to total tangible net worth (TOL/TNW) stood healthy as on March 31, 2022 (Provisionals) at 0.55 times against 0.74 times in previous year. Debt protection metrics of the company are moderate marked by interest coverage ratio, Debt service coverage ratio and Net cash accruals to total debt (NCA/TD) of 4.79 times, 1.76 times and 0.53 times respectively as on March 31, 2022 (Provisionals) against 4.33 times, 1.59 times and 0.30 times as on March 31, 2021.

## Weaknesses

- **Presence of moderate customer concentration risk on the revenue profile of the company**

PTSP has made revenue of Rs.157.92Cr in FY22 (Provisionals). This revenue is majorly contributed by 5 customers who contribute more than 50 percent of the revenue and single customer is contributing more than 23 percent to the revenue i.e. Rs.37.37Cr in FY22 which depicts the risk of customer concentration on the revenue profile of the company.

- **Moderate working capital cycle**

PTSP working capital operations are high as evident from Gross Current Assets days of (GCA) of 282 days as on March 31, 2022 (Provisionals) against 378 days as on March 31, 2021. Debtor days Improved to 69 days as on March 31, 2022 (Provisionals) from 113 days in March 31, 2021. GCA days decreased on account of significant reduction in debtors. As most of the debtors are of Smart City Segment. The bank limits utilization stood high at 94 percent in the last 6 months ending June 2022. Acuite Believes that working capital operations of the group will improve over the medium term on account of timely receipts from debtors.

- **Susceptibility to volatility in the scale of operations**

The manpower service industry is highly fragmented, with a large number of unorganised players in the domestic market offering services at low costs. Players in this industry face high attrition, driven by intense competition to poach skilled and trained manpower. However, addition and increase in executing orders pertaining to smart city projects will mitigate the risk to an extent over the medium term. Acuite believes that the ability of the company to increase the scale of operations while maintaining its profitability levels would be the key rating sensitivity factor over the medium term.

## Rating Sensitivities

- Significant and sustainable improvement in the scale of operations
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.
- Any deterioration in Revenue profile and leverage position of the company.

## Material covenants

none

## Liquidity Position: Adequate

PTSPL has adequate liquidity as evidenced by sufficient NCA of Rs.9.27Cr in FY22 (Provisionals) against debt repayment obligation of Rs.3.87Cr. The company's long term debts are expected to be closed by FY24. The company has been highly utilizing its cash credit facility at 94 percent in the past 6 months ending June 2022. Unencumbered cash and bank balances stood moderate at Rs.3.02Cr as on March 31, 2022 (Provisionals) with current ratio of 1.96 times. The company also has Margin deposit of around Rs.3.75 Cr deposited with the bank. Acuite believes that liquidity position of the company will remain adequate in the medium term.

## Outlook: Stable

Acuite believes that PTSPL will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry, healthy unexecuted order book. The outlook may be revised to 'Positive', in case of sustainable improvement in scale of operations and reduction in receivables from debtors leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case ECS 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 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	157.92	119.27
PAT	Rs. Cr.	5.44	3.11
PAT Margin	(%)	3.45	2.60
Total Debt/Tangible Net Worth	Times	0.16	0.23
PBDIT/Interest	Times	4.79	4.33

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

PTSPL rating was downgraded to 'IIND BB(Issuer not cooperating)/IND A4+(Issuer not cooperating) status with India ratings through its rating rationale dated July 10, 2020.

## Any other information

None

## Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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

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

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Jul 2021	Cash Credit	Long Term	20.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Bank Guarantee	Short Term	22.00	ACUITE A2 (Upgraded from ACUITE A3+)
28 Jul 2020	Bank Guarantee	Short Term	22.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB   Stable (Reaffirmed)
18 Jul 2019	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	19.00	ACUITE BBB   Stable (Reaffirmed)
09 Jul 2018	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	19.00	ACUITE BBB   Stable (Assigned)

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A3+   Downgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB   Stable   Downgraded

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### About Acuité Ratings & Research

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