

Press Release

Esds Software Solution Private Limited (Erstwhile Esds Software Solutions Pri



October 10, 2022

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.75	-	ACUITE A2 Upgraded
Bank Loan Ratings	56.25	ACUITE BBB+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	82.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to 'ACUITE BBB+' (read as ACUITE triple B plus) from 'ACUITE BB+' (read as ACUITE double B plus) on the Rs.56.25 Cr. long term bank facilities and short-term rating to 'ACUITE A2' (read as ACUITE two) from ACUITE A4+ (read as ACUITE A four plus) on the Rs. 25.75 Cr. short-term bank facilities of ESDS SOFTWARE SOLUTION PRIVATE LIMITED (ESDS). The Outlook is 'Stable'.

The rating upgrade factors in the long track record of operations of ESDS in providing IT services and software solutions, its reputed clientele, and continues growth in operating income. The revenues for FY2022 (Prov.) stood at Rs. 193.23 Cr. against Rs. 171.93 Cr for FY2021 and Rs. 159.45 Cr in FY2020. Further the rating derives comfort from the healthy order book position, giving fair revenue visibility, strong net worth and sufficient liquidity. The rating, however, is constrained on account of highly working capital intensive nature of operations leading to dependence of working capital borrowing, high lease obligations and intense competition ESDS faces from well-established competitors in the cloud computing business.

Acuite believes that the company's ability to scale up its operating level will be critical towards the rating. Further, timely collection of receivables will remain a key rating sensitivity.

About the Company

Nashik-based, ESDS Software Solution Private limited (ESDS) was incorporated in 2005 by Mr. Piyush Somani. The company is engaged in the business of providing IT services and software solutions such as web hosting services, data centre services, website development, and software development, among others. Company has its fully integrated data centres located in Nashik, Mumbai, and Bangalore.

Analytical Approach

Acuite has considered the standalone business and financial profile of ESDS Software Solutions Private limited to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and established market position

ESDS is promoted by Mr. Piyush Somani, who has around two-decade long experience in the IT industry, which has helped the company to establish a strong market position. ESDS has diversified its operations from one data centre to three data centres and developed various software which has helped the company to register continuous revenue growth during the last 4 years ended FY2022. Further, the company has an operational track record of 15 years which has enabled the company to maintain healthy relations with its customers and suppliers. The company has a reputed client base, which includes both government bodies and private entities, with government entities contributing around more than 40 percent of the revenue.

Acuité believes that the company will derive benefit from its experienced management and established market position over medium to long term.

Comfortable Financial risk profile

The company has a strong net worth and same has helped it in maintaining comfortable gearing levels at 0.93 times as on March 31, 2022 (Prov.) against 0.96 times as on March 31, 2021. The company's total debt stood at Rs.191.88 Cr. which includes a term loan of around Rs. 63 Cr., NCD of Rs. 30 Cr issued at 12% rate (redeemed in May 2022). along with lease liabilities of around Rs. 80 Cr and short term borrowing of Rs. 17.80 Cr. The Net worth of the company stood at Rs.205.35 crore as on 31 March 2022 (Prov.) against Rs. 182.14 Cr. as on March 31, 2021. Further, during FY2022, the company has restated its equity shares with split of shares from face value Rs. 10 to Rs. 1 per equity share. The improvement in the net worth is on account of conversion of the compulsory convertible preference shares and compulsory convertible debentures being converted into equity shares in FY2022. Additionally, the company accorded to offer, issue and allot 70,00,000 equity shares of the company by way of right issue having face value of Rs 1 each to its existing equity shareholders. This has increased its paid up capital to Rs. 9.16 Cr. during FY2022 against Rs. 5.22 Cr in FY2021. The financial leverage of the company is moderate marked by Debt-EBITDA at 2.76 times in FY2022 (Prov.) against 2.60 times in FY2021. The coverage indicators have stood moderate with ICR and DSCR marked at 4.19 times and 1.12 times during FY2022(Prov.) against 3.80 times and 1.83 times during FY2021. The DSCR has reduced owing to increased current lease liabilities which pertain to payables for right of use asset. The lease liabilities stood at Rs. 45.51 Cr in the FY2022 against Rs. 8.09 Cr. in the previous year. Going forward the gearing is expected to reduce as the company is in the process of IPO with a fresh issue of around Rs. 322 Cr which will be used for closing the current debt and balance for capital expenditure.

Weaknesses

Highly working capital intensive operations

The operations of the company are highly working capital intensive marked by Gross Current Assets (GCA) of 321 days in FY2022 (Provisional) as against 270 days in FY2021, this is primarily on account of receivable days of 120 in FY2022 and 100 in FY2021. The current asset further consists of unbilled revenues to the tune of Rs.38 crore. The elongation is on account of extended credit period to government entities who form a major part of its sales in FY2022. Further the elongation also pertains to sales towards the last quarter.

Acuité believes ESDS' ability to improve its working capital cycle will remain key for it to maintain its liquidity profile.

Competitive industry

ESDS has a moderate scale of operations with operating income at Rs.193.23 crore in FY2022 (Provisional) as against Rs.171.93 crore in FY2021 and it operates in a fragmented and competitive industry, where it faces high competition from well established companies with high resources. Company has been diversifying its offerings, in the past, to be able to cater to customers from various industries and requirements. Acuité believes that the addition of new customers will be critical in order to scale up its operations over the medium term.

Rating Sensitivities

- Lower than expected revenue growth and reduction in profitability margins
- Deterioration in financial risk profile
- Further elongation of working capital cycle adversely impacting liquidity profile

Material covenants

None

Liquidity Position

Adequate

The liquidity position of the company is adequate marked by net cash accruals of Rs.51.76 crore in FY2022 (Provisional) vis-à-vis its repayment obligations of Rs.16.43 crore for the same period. The company also has lease liabilities of around Rs 45 Cr. payable during FY2022. However, the company has a strong net worth of around Rs. 205 Cr. as on March 31, 2022. Further the company has maintained cash balances of Rs. 34 Cr. as on March 31, 2022. The working capital limits have remained utilised at around 79% for the six months ended June 2022. Going forward, the liquidity is expected to remain adequate owing to the increased expected accruals in the coming years. The accruals are expected to remain in the range of Rs. 57 Cr. to Rs. 66 Cr. The repayment obligations during the same period will remain in the range of Rs. 22-27 Cr along with current lease obligations of around Rs.25-30 Cr.

Outlook: Stable

Acuité believes ESDS will maintain a 'Stable' business risk profile on the back of experienced management and strong market position. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while significant improvement in operating margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital management, thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	193.23	171.93
PAT	Rs. Cr.	5.68	8.71
PAT Margin	(%)	2.94	5.06
Total Debt/Tangible Net Worth	Times	0.93	0.96
PBDIT/Interest	Times	4.19	3.80

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

Crisil, vide its press release dated March 14, 2022 had reaffirmed the rating of ESDS to 'CRISIL B/A4; ISSUER NOT COOPERATING'.

India Ratings, vide its press release dated July 28, 2022 had reaffirmed the rating of ESDS to 'IND BB/A4+; ISSUER NOT COOPERATING'.

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

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Jul 2022	Term Loan	Long Term	1.18	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	2.40	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	9.77	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	7.64	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	10.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Proposed Cash Credit	Long Term	15.26	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	5.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	12.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	5.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	13.75	ACUITE A4+ (Downgraded and Issuer not co-operating*)
16 Dec 2020	Cash Credit	Long Term	10.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	1.18	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	13.75	ACUITE A1 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	2.40	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	9.77	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	7.64	ACUITE A- Stable (Assigned)
	Proposed Cash Credit	Long Term	15.26	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	12.00	ACUITE A1 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	13.75	ACUITE A2 Upgraded (from ACUITE A4+)
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A2 Upgraded (from ACUITE A4+)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+ Stable Upgraded (from ACUITE BB+)
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+ Stable Upgraded (from ACUITE BB+)
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.96	ACUITE BBB+ Stable Upgraded (from ACUITE BB+)
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	4.17	ACUITE BBB+ Stable Upgraded (from ACUITE BB+)
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.55	ACUITE BBB+ Stable Upgraded (from ACUITE BB+)
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	17.08	ACUITE BBB+ Stable Upgraded (from ACUITE BB+)
Axis Bank	Not Applicable	Term Loan	Not available	Not available	30-04-2024	3.79	ACUITE BBB+ Stable Upgraded (from ACUITE BB+)
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	4.70	ACUITE BBB+ Stable Upgraded (from ACUITE BB+)
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.38	ACUITE BBB+ Stable Upgraded (from ACUITE BB+)

							BB+)
Axis Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.62	ACUITE BBB+ Stable Upgraded (from ACUITE BB+)

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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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