

Press Release

Chain-Sys Software Exports Private Limited

May 15, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	32.00	ACUITE BB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	32.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.32.00 Cr bank facilities of Chain-sys Software Exports Private Limited (CSEPL). The outlook is '**Stable**'.

Rating Rationale

The rating takes into account the experience of the management in the IT industry for more than two decades and the above average financial risk profile of the company. The rating, however, remains constrained by small scale of operations, significant client concentration risk, ongoing project execution risk and exposure of the company to intense competition in the IT industry.

About the Company

Incorporated in 2009, Chain-Sys Software Exports Private Limited is headquartered in Chennai, Tamil Nadu. The company is a subsidiary of M/s Chainsys Corporation, USA, which holds 99% of the shareholding of this company. It is promoted by Mr. Rathinam Maragatham and Mr. Sangli Rathinam, who have more than twenty years' experience in the IT industry. The company provides services in Oracle Data Migration, Enterprise Data Management, Data Security, SAP Data Migration, Master Data Management, Data Masking, Setup Migration, Data Cataloging, Application Builder, Data Reconciliation, Data Analytics, Data Factory, Data Integration, BPA/QA Automation, Data Archival, Data Quality, and Mass Data Loading.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of CSEPL while arriving at the rating.

Key Rating Drivers

Strengths

Experienced management

The promoters, Mr. Rathinam Maragatham and Mr. Sangli Rathinam have over two decades of experience in the IT industry. Moreover, the parent company, M/s Chain-sys Corporation, USA has a long track record of operations of more than 25 years in software development and consultancy. The company has partnered with major global IT players, namely SAP,

Oracle, Sales force and Microsoft Corporation among others. The company executes projects for its Parent company in US and also exports services to few SEZs.

Acuité believes that the industry experience of the management and long operational track record of the Parent company shall sustain the business risk profile to an extent over the medium term.

Above average financial risk profile

The company's financial risk profile is marked by moderate network, low gearing and strong debt protection metrics on account of low dependence on external debt. The tangible network of the company improved to Rs.23.63 Cr as on March 31, 2022 as against Rs.5.39 Cr as on March 31, 2021 due to infusion of capital by the promoters. The company was debt free until FY2022 and relies on customer advances to finance its working capital requirements. This has led to negligible finance charges and in turn strong debt coverage indicators. While the metrics are likely to moderate due to the ongoing planned capex, they are likely to remain at a comfortable level. The gearing is expected to increase but will remain comfortable in FY23 and FY24 as the company plans to avail a term loan to construct an office building at ELCOT, Madurai district. The total cost of the project is Rs.61.50 Cr which is to be funded partly through Rs.31.75 Cr term loan from and remaining Rs.29.75 Cr from promoter's contribution. The financial closure has been achieved and ~Rs.10.00 Cr of term loan has been disbursed in March 2023. The promoters are resourceful and will infuse any incremental funding requirement if the situation arises. The scheduled time for completion of the project is 31st December 2023.

Acuité believes that going forward the financial risk profile of the company may moderate on account of moderate accruals and significant debt funded capex plans. However, Acuite notes that the promoters are resourceful and will infuse any incremental funding requirement if the situation arises.

Weaknesses

Modest scale of operations

The company has achieved revenue of Rs.42.48 Cr in FY2022 as against Rs.32.38 Cr in FY2021. Further, the company has registered a revenue of Rs.41.67 Cr till 9MFY23 (Prov). The increase in revenue is due to an increase in income from its major customer, Chainsys Corporation on the back of migration to cloud, digital initiatives to bring business models online due to a sharp shift towards digital services post pandemic. Around 90 per cent of the revenue is earned from the Holding company. Acuite believes that the established position of its Holding company, the major customer and its association with reputed clients shall support the business risk profile to an extent. However, it remains susceptible to other large players in the IT industry and regulatory risk in its major exporter country, USA.

The operating margin of the company increased to 6.87 per cent in FY2022 as against 5.10 per cent in FY 2021 on account of cost rationalization. The PAT margin also improved to 2.86 per cent in FY22 as against 1.29 per cent in FY21.

Acuite expects that the scale of operations of the company may improve in the near to medium term post commissioning of the new office space, with higher employee count.

Project execution risk

The company is undergoing a capex to construct an office building at ELCOT SEZ, Software Park, Madurai. The total cost of the project is Rs.61.50 Cr which is to be funded partly through Rs.31.75 Cr (52 per cent) term loan from and remaining Rs.29.75 Cr (48 per cent) from promoter's contribution. The company is already in the possession of land and the civil construction is completed. The financial closure has been achieved. The company is exposed to execution risk as ~77 per cent of the project cost is yet to be incurred. The ability to execute the project in a timely manner with no cost or time overruns would remain key credit sensitivities. The scheduled time for completion of the project is 31st December 2023. Acuité believes that the timely completion of the project at the envisaged cost would be a key monitorable.

Highly competitive nature of the IT industry

The global IT services industry is dominated by several large players and small niche

technology players. SSPL faces stiff competition from domestic as well as international IT service companies leading to intense margin pressure. The industry is highly technology oriented which keeps on changing time to time. Thus, the company must keep upgrading the services it offers according to the needs of the clients and changes in the industry. However, the established relationship with clients and vendors, diversified geographical presence and experienced management mitigates the risk to some extent. Further, the ability of the company to manage industry specific risks such as wage inflation and employee attrition levels determine the companies' ability to sustain its business risk profile and will remain a key rating sensitivity.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins.
- Timely completion of the under-construction projects within the stipulated time period without any cost overrun.

Material covenants

None.

Liquidity Position Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs.2.65 Cr in FY2022 as against no long term debt repayment over the same period. Further, the current ratio stood comfortable at 2.31 times as on March 31, 2022 as against 0.97 times as on March 31, 2021. The company has not availed any fund-based limits until FY2022 and had relied on advances from customers to support the working capital funding requirements. Moreover, the company has a fixed deposit of Rs.17.58 Cr in FY2022. The cash and bank balance stood at Rs.0.99 Cr as on March 31, 2022. However, the moderate working capital- management of the company is marked by Gross Current Assets (GCA) of 77 days in FY2022 as compared to 104 days in FY2021.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual and willingness of promoters to infuse funds as required.

Outlook: Stable

Acuite believes that CSEPL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and above average financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than expected growth in its revenues and profitability, while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant delays in project execution.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	42.48	32.38
PAT	Rs. Cr.	1.21	0.42
PAT Margin	(%)	2.86	1.29
Total Debt/Tangible Net Worth	Times	0.00	0.10
PBDIT/Interest	Times	123.59	86.76

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

None.

Any other information

None.

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.25	ACUITE BB- Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	31.75	ACUITE BB- Stable Assigned

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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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