

Press Release
COGENT E-SERVICES LIMITED
July 06, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	87.67	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	7.33	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	95.00	-	-

Rating Rationale

Acuite has assigned its long term rating of 'ACUITE BBB' (read as ACUITE Triple B) and short term rating of 'ACUITE A3+' (read as ACUITE A three plus) on the Rs. 95.00 Cr. bank facilities of Cogent E-Services Limited (CESL). The outlook is 'Stable'.

Rationale for the rating

The rating assigned reflects the growing scale of operations over the last two years with a CAGR of approx. 22% through FY 2023 (Prov). The revenue of the company has increased to Rs 410 Cr in FY 2023 (Prov) as against Rs 363 Cr in FY 2022 and Rs 273 Cr in FY 2021. Further, the rating also factors in the reputed clientele base of the company with more than 50% of its revenue being contributed by Bajaj Finance Limited, Axis Bank Limited, Tata Play, and Vodafone Idea. The rating also considers the established track record of operations of the company of almost two decades in this line of business., The rating is further supported by above average financial risk profile of the company with gearing standing at 0.14 times as on March 31, 2023 (prov). These strengths are however partly offset by high customer concentration and the renewal risk of the contracts.

About the Company

Incorporated in 2004, Cogent E-Services Limited (CESL) is a Noida based IT and BPO service provider. It is a CXM solutions provider facilitating businesses and brands to redefine their customer experience management in the digital age. The company is promoted by Mr. Abhinav Singh, Mr. Pranjal Kumar, Mr. Gaurav Abrol and Mr. Arunabh Singh. The company opened its first centre in Noida. The company primarily caters to inbound and outbound call center outsourcing requirements for domestic operations of many reputed companies. It also provides software services, data management services, email support, chat support etc. Currently the company operates in nine Indian cities namely Noida, Bengaluru, Vadodara, Mangaluru, Meerut, Bareilly, Thane, Nashik and Anantapur.

Present directors of the company are Mr. Pranjal Kumar, Mr. Abhinav Singh, Mr. Arunabh Singh, Mr. Gaurav Abrol, Ms. Juhi Sakhuja and Mr. Nishant Ambust.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Cogent E Services limited to arrive at the rating.

Key Rating Drivers

Strengths

Established Track record of operations

CESL has an established track record of operations dating back almost two decades, along with experienced management. The company is promoted by Mr. Abhinav Singh, Mr. Arunabh Singh, Mr. Pranjal Kumar and Mr. Gaurav Abrol who are ably supported by the experienced second line of management. The experience of promoters is also reflected in the growing scale of operations, with revenue of the company increasing to Rs. 410 Cr in FY2023 (Prov.) as against Rs. 363 Cr in FY2022 and Rs 273 Cr. in FY2021. Further, the company was able to maintain a stable relationship with reputed clientele in different industries namely NBFCs & Fintech, Banking and Insurance, telecommunication, e-Commerce, and Direct to home television, among others. The clientele of the company includes companies like Bajaj Finance, Axis Bank, Vodafone Idea, Tata play, Think & learn private limited, Zomato, Whirlpool, among others. The company currently has a total of 75 clients.

Acuite believes that CESL will continue to benefit from its established track record of operations and stable relationships with reputed clients.

Healthy financial risk profile

The financial risk profile of the company is healthy marked by a healthy net worth, low gearing, and comfortable debt protection metrics. The net worth of the company stood healthy at Rs. 144 Cr as on March 31, 2023 (Prov.) as against Rs. 104 Cr. as on March 31, 2022. The increase in net worth is primarily due to the accretion of profits to the reserves. The company follows a conservative financial risk policy, reflected in its peak gearing (debt/equity) of 0.25 times as on March 31, 2021. The gearing of the company stood at 0.14 times as on March 31, 2023 (Prov.) as against 0.10 times as on March 31, 2022 and 0.25 times as on March 31, 2021. However, Acuite expects the gearing to increase to 0.24 times in FY2024 on account of additional disbursement of loan to be taken by the company for adding additional capacity and delivery centres. The TOL/TNW stood at 0.92 times as on March 31, 2023 (Prov.) as against 0.89 times as on March 31, 2022 and 1.28 times as on March 31, 2021. The total outside liabilities are mainly financial lease liabilities. The debt protection metrics stood comfortable with DSCR and Interest coverage ratio standing at 5.49 times and 8.96 times respectively as on FY2023(Prov.) as against 7.98 times and 14.74 times as on FY 2022.

Acuite believes that the financial risk profile of the company may continue to remain healthy with steady cash accruals to fund capex, if any in the near to medium term.

Working capital efficient operations

The operations of the company are working capital efficient marked by GCA days of 97 days in FY 2023 (Prov.) as against 90 days in FY 2022 and 94 days in FY 2021. The GCA days are mostly comprised of debtor days and unbilled revenue. The debtor days stood at 55 days in FY 2023 (Prov.) as against 43 days in FY 2022 and 52 days in FY 2021. The company has agreement of providing invoice to customers within 30 days of end of service month and then within 45 to 60 days of invoice generation the company receives the money from client. The unbilled revenue of the company stood at Rs 39.12 Cr in FY 2022 and Rs 22.57 Cr in FY 2021. The company has moderate dependence on short term bank finance with an average utilization of 50% for last 7 months ended May 2023.

Acuite believes that working capital operations of the company may continue to remain efficient considering the efficient receivable mechanism.

Weaknesses

Customer Concentration risk along with contract renewal risk

The CEPL faces a customer concentration risk with its top four customers contributing more than 50% of its total revenue. Further, the contracts for the services with its customers are for three years and revenue is highly dependent on renewal of these contracts. However, to mitigate this risk to some extent renewal clauses are mentioned in contract at the discretion of both parties.

Acuite believes that the recurring renewal of these contracts is a key rating sensitivity.

Competitive Industry with high manpower attrition.

The global IT services industry is dominated by several large players and small niche technology players. The industry is highly technology-oriented which keeps changing from time to time. Thus, the company has to keep upgrading the services it offers according to the needs of its clients and changes in the industry. However, the established relationship with

clients and vendors, diversified geographical presence and experienced management mitigate the risk to some extent. Further, the ability of the company to manage industry specific risks such as wage inflation and employee attrition levels determines the company's ability to sustain its business risk profile and will remain a key rating sensitivity.

Rating Sensitivities

- Recurring renewal of contracts with existing clients.
- Acquisition of new clients.
- Maintaining its efficient working capital operations.

Material covenants

None

Liquidity Position

Adequate

CESL has an adequate liquidity position marked by healthy net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals of Rs.64 Cr in FY2023(Prov.) against its repayment obligation of Rs.4.01 Cr during the same period. Going forward the NCA are expected in the range of Rs.80 Cr to Rs.100 Cr for period FY2024-FY2025 against its repayment obligation in the range of Rs.5.11 Cr to Rs.8.02 Cr during the same period respectively. Further, the current ratio stood at 1.74 times as on March 31, 2023 (Prov) as against 1.67 times as on March 31, 2022. Also, the dependence on short term finance is moderate with an average limit utilization of 50% for 7 months ended May 2023. However, the company has maintained cash & bank balance of Rs. 2 Lakhs only and has an investment of around Rs. 21 Cr in various liquid instruments as on March 31, 2023 (Prov).

Acuite believes the liquidity position of the company may continue to remain adequate with steady cash accruals and efficient working capital management.

Outlook: Stable

Acuite believes the outlook on CESL will continue remain 'Stable' over the medium term backed by its long track record of operations and reputed clientele base. The outlook may be revised to 'Positive' if the company is able to acquire more clients along with significant improvement in scale of operations and the profitability margins while maintaining its working capital operations efficiently. Conversely, the outlook may be revised to 'Negative' in case of non-renewal of existing contracts leading to deterioration in revenue and profitability along with financial risk profile and liquidity position of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	410.81	363.15
PAT	Rs. Cr.	34.92	42.25
PAT Margin	(%)	8.50	11.64
Total Debt/Tangible Net Worth	Times	0.14	0.10
PBDIT/Interest	Times	8.96	14.74

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

None

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

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
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	29.50	ACUITE BBB Stable Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	19.50	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3+ Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Stable Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.33	ACUITE A3+ Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	24.00	ACUITE BBB Stable Assigned
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.61	ACUITE BBB Stable Assigned
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.06	ACUITE BBB 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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