



Press Release
COGENT E-SERVICES LIMITED
June 19, 2024
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	85.27	ACUITE BBB+ Stable Upgraded	-
Bank Loan Ratings	9.73	-	ACUITE A2 Upgraded
Total Outstanding Quantum (Rs. Cr)	95.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB+**' (read as **ACUITE Triple B plus**) from '**ACUITE BBB**' (read as **ACUITE Triple B**) and the short term rating to '**ACUITE A2**' (read as **ACUITE A Two**) from '**ACUITE A3+**' (read as **ACUITE Three plus**) on the Rs. 95.00 Cr. bank facilities of Cogent E-Services Limited (CESL). The outlook is '**Stable**'.

Rationale for rating upgrade

The rating upgrade considers the improvement in scale of operations, strong financial risk profile and strong liquidity position of the company. The rating also considers the established track record of operations of almost two decades in this line of business along with the reputed clientele base of the company with nearly 60% of its revenue being contributed by large corporates namely Bajaj Finance Limited, Axis Bank Limited, Tata Play, and Vodafone Idea. Along with this the company has added a PSU client to its clientele in FY24. The rating is further supported by strong financial risk profile of the company as seen by strong net worth, healthy gearing, strong debt protection metrics with debt-equity stood at 0.11 times and DSCR at 8.12 times as on 31st March 2024 (Prov). The rating also factors in the efficient working capital operations of the company, with GCA days stood at 78 days in FY24 (Prov) as against 91 days in FY23. These strengths are however partly offset by high customer concentration and the renewal risk of its contracts with client. The rating also factors in the industry specific risk for the company having a high attrition rate.

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 twelve Indian cities namely Noida, Bengaluru, Vadodara, Mangaluru, Meerut, Bareilly, Thane, Nashik, Hyderabad, Navi Mumbai, Gurugram 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.

Unsupported Rating

Not Applicable

Key Rating Drivers

Strengths

Established Track record of operations

CESL has an established track record of operations data back of 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. 465.76 Cr. in FY2024 (Prov) as against Rs. 413.93 Cr. in FY2023 and Rs 363.15 Cr. in FY2022. The operating income in FY24 (Prov) also constitute of Rs.3.12 Cr. of other income for the company. 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, Tata AIG, Whirlpool, among others. The company in FY24 was successfully awarded a work contract from Central Bank of India for a period of 5 years. The company currently has a total of 68 clients. Acuite believes that CESL will continue to benefit from its established track record of operations and stable relationships with reputed clients.

Strong financial risk profile

The financial risk profile of the company remained strong marked by a healthy net worth, low gearing, and strong debt protection metrics. The net worth of the company stood healthy at Rs. 170.62 Cr. as on March 31, 2024 (Prov) as against Rs. 136.62 Cr. as on March 31, 2023. 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 0.16 times as on March 31, 2023. The gearing of the company stood at 0.11 times as on March 31, 2024 (Prov) as against 0.16 times as on March 31, 2023 and 0.10 times as on March 31, 2022. The TOL/TNW stood at 0.80 times as on March 31, 2024 (Prov) as against 1.02 times as on March 31, 2023 and 0.89 times as on March 31, 2022. The total outside liabilities are mainly financial lease liabilities of the company. The debt protection metrics stood comfortable with DSCR and Interest coverage ratio standing at 8.12 times and 19.03 times respectively as on FY2024 (Prov) as against 5.11 times and 8.59 times as on FY 2023.

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 working capital operations of the company remained efficient marked by GCA days of 78 days in FY 2024 (Prov) as against 91 days in FY 2023. The GCA days are comprised of debtor and other current assets consisting of unbilled revenue. The debtor days stood at 35 days in FY 2024 (Prov) as against 54 days in FY 2023. The company has agreement of providing invoice to customers within 30 days of end of service month and then within 30 to 45 days, the company receives the payment from client. The unbilled revenue of the company stood at Rs 37.62 Cr. in FY 2024 (Prov) and Rs 37.52 Cr. in FY 2023. The company has average dependence on short term bank finance with an average utilization of 38% for last 7 months ended April 2024.

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

nearly 60% of its total revenue. Further, the contracts for the services with its customers are for three years and future revenue for the company 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 existing contracts along with acquisition of new clients.
- Maintaining its efficient working capital operations.

Liquidity Position

Strong

Cogent has strong liquidity position marked by healthy net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals of Rs.72.03 Cr. in FY2024(Prov) against its repayment obligation of Rs.4.85 Cr. during the same period. Going forward the NCA are expected in the range of Rs.85 Cr. to Rs.99 Cr. for period FY2025-FY2026 against its repayment obligation of around 6.26 Cr. during the same period. The working capital operations of the company are efficient marked by its gross current asset (GCA) days of 78 days for FY2024(Prov) and 91 days for FY2023. Further, Current ratio stands at 1.54 times as on March 31, 2024, as against 1.55 times as on FY2023. Also, the dependence on short term finance is moderate with an average limit utilization of 38% for 7 months ended April 2024. The company also has an investment of around Rs. 27 Cr. in various liquid instruments as on March 31, 2024 (Prov).

Acuite believes the liquidity position of the company may continue to remain strong 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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	465.76	413.93
PAT	Rs. Cr.	37.28	27.66
PAT Margin	(%)	8.00	6.68
Total Debt/Tangible Net Worth	Times	0.11	0.16
PBDIT/Interest	Times	19.03	8.59

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

Not Applicable

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

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Jul 2023	Cash Credit	Long Term	29.50	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	19.50	ACUITE BBB Stable (Assigned)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A3+ (Assigned)
	Proposed Cash Credit	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Proposed Short Term Bank Facility	Short Term	2.33	ACUITE A3+ (Assigned)
	Term Loan	Long Term	1.61	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	3.06	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	24.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A2 Upgraded (from ACUITE A3+)
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	29.50	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Bank of Baroda	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	29.50	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.73	ACUITE A2 Upgraded (from ACUITE A3+)
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	13 Jan 2023	Not avl. / Not appl.	27 Feb 2028	Simple	24.00	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Bank of Baroda	Not avl. / Not appl.	Term Loan	14 Mar 2024	Not avl. / Not appl.	31 Oct 2024	Simple	0.72	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Bank of Baroda	Not avl. / Not appl.	Term Loan	14 Mar 2024	Not avl. / Not appl.	30 Nov 2024	Simple	1.55	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)

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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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