



Press Release

VIRTUAL GALAXY INFOTECH LIMITED (ERSTWHILE VIRTUAL GALAXY INFOTECH PRIVATE LIMITED)

December 17, 2024

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.53	ACUITE BBB- Stable Upgraded	-
Bank Loan Ratings	2.47	-	ACUITE A3 Upgraded
Total Outstanding Quantum (Rs. Cr)	17.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long term rating at 'ACUITE BBB-' (read as ACUITE Triple B minus) from 'ACUITE BB' (read as ACUITE Double B) and the short term rating at 'ACUITE A3' (read as ACUITE A Three) from 'ACUITE A4+' (read as ACUITE A Four Plus) on the Rs. 17.00 Cr. bank facilities of Virtual Galaxy Infotech Limited (Erstwhile Virtual Galaxy Infotech Private Limited) (VGIL). The outlook is 'Stable'.

Rationale for Rating Upgrade

The rating upgrade and migration out of 'Issuer Not Cooperating' status reflect VGIL's established track record of over two decades of operations, coupled with the extensive experience of its promoters in the Information Technology industry. The rating also takes into account the growth in operating revenue, which increased to Rs. 61.46 Cr. in FY2024 from Rs. 58.48 Cr. in FY2023. Furthermore, VGIL has recorded a revenue of approximately Rs. 71.60 Cr. in 6MFY2025. The operating profit margins increased significantly to 49.78% in FY2024 from 22.43% in FY2023, primarily driven by higher software sales during the year. Additionally, the company has achieved an operating profit margin of around 43% in 6MFY2025.

The upgrade also reflects an improved yet moderate financial risk profile, characterized by a net worth of Rs. 44.00 Cr. as of March 31, 2024, a low gearing ratio of 0.88 times, and comfortable coverage indicators. In October 2024, the company filed a Draft Red Herring Prospectus (DRHP) to raise funds via a SME IPO by Q4FY25 and has secured pre-IPO funding of Rs. 21.44 Cr. Acuite expects that these additional funds will enhance the company's financial risk profile and scale of operations in the near to medium term.

However, the rating remains constrained by the intensive nature of the company's working capital operations. Going ahead, the company's ability to sustain steady revenue growth, while maintaining profitability margins and improving its financial risk profile through steady accrual generation will remain key monitorable.

About the Company

Virtual Galaxy Infotech Limited (Erstwhile Virtual Galaxy Infotech Private Limited) (VGIL) is a Nagpur based company having satellite office in Mumbai. The company was established in 1997 by promoters and directors namely Mr. Avinash Shende and Mr. Sachin Pande. VGIL is engaged in providing Information Technology services in areas like application development, IT infrastructure development, Mobile Computing, Cloud computing, Big

data, Artificial intelligence, Internet of things, Data center & Data recovery, and Digital marketing solutions. The company is operating in the domain of Banking/BFSI, ERP, E-Governance Biz., APMCs, Data Centre and Disaster Recovery Site, Cloud hosting, Digital Payments, Hardware, Facility Management Networking, Connectivity, and services. The company has recently developed innovative Digital Payment and Cloud Store products for SMEs and SMBs.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité has considered standalone business and financial risk profile of Virtual Galaxy Infotech Limited (Erstwhile Virtual Galaxy Infotech Private Limited) to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and established presence in the market

Established in 1997, the company is promoted by Mr. Avinash Shende and Mr. Sachin Pande who have been associated with the Information Technology industry for more than two decades. VGIL has development centre in India with its Sales and Marketing team spread across 12 branch offices within India and 2 overseas offices with an integrated network connecting global offices and development centre. VGIL has state of art Data Centre, which provides 24x7 Helpdesk, server colocation, and 4 Lease Lines with a band width of 2-6 MBPS for excellent customer support. It has a pool of Technical and Functional consultants trained in Application Implementation and Optimization to help customers get maximum benefits for the penny start. The company is well supported by second line of management.

Acuite believes that the promoters' experience and healthy relations with its customers will continue to benefit VGIL over the medium term.

Improvement in operating performance

In FY2024, the company reported a revenue increase to Rs. 61.46 Cr, compared to Rs. 58.48 Cr. in FY2023, reflecting a year-on-year growth of approximately 5.10 percent. This growth was driven by an overall increase in revenue across various product offerings. VGIL has achieved a revenue of ~Rs. 71.60 Cr. in 6MFY24. The company's operating margin improved to 49.78% in FY2024, compared to 22.43% in FY2023. This improvement is primarily attributed to the upfront software sales secured in Q3 and Q4 of FY2024. Operating margins are expected to remain in a similar range, driven by continued software sales. VGIL has achieved operating profitability of ~43% in 6MFY25. Additionally, the company's PAT margin improved to 26.12% in FY2024, up from 6.02% in FY2023.

Moderate Financial Risk Profile

The financial risk profile of the company improved and remained moderate marked by moderate network, low gearing and comfortable debt protection metrics. The net worth of the company stood at Rs. 44.00 Cr. as on March 31st, 2024 as against Rs. 27.52 Cr. as on March 31st, 2023, on account of accretion of profits to reserves. The gearing of the company stood low at 0.88 times as on March 31, 2024 as compared to 1.39 times as on March 31, 2023. The total debt of the company stood at Rs. 38.64 Cr. as on March 31, 2024 as against Rs. 38.11 Cr. as on March 31, 2023. The TOL/TNW of the company stood at 1.63 times as on March 31, 2024 as against 2.17 times as on March 31, 2023. Further, the debt protection metrics of the company improved and stood comfortable reflected by debt service coverage ratio of 4.66 times for FY2024 as against 2.83 times for FY2023 and interest coverage ratio of 12.37 times for FY24 as against 4.94 times for FY23. The improvement in coverage indicators is on account of improved operating profits during the year. The net cash accruals to total debt (NCA/TD) stood at 0.57 times in FY2024 as compared to 0.24 times in the previous year.

Acuite believes that the financial risk profile of the company may continue to remain healthy with steady cash accruals, planned raise of equity funds and no major debt-funded capex planned.

Weaknesses

Intensive nature of working capital operations

The working capital operations of the company are intensive marked by Gross Current Assets (GCA) extending to 224 days in FY2024, compared to 215 days in FY2023. The high GCA days are primarily on account of high debtor days high and other current assets. The debtor days stood at 149 days in FY2024 compared to 145 days in FY2023. The fund-based limit utilization stood at ~83.50 percent over the six months ended sept 2024. The creditor days stood at 196 days as of March 31, 2024, as against 103 days in FY2023.

Acuite believes that the working capital operations of the company may continue to remain at similar levels going forward considering the nature of its operations.

Highly fragmented and competitive service industry

VGIL operates in a highly fragmented service industry with a large number of players in the organised and unorganised segment. The company faces direct competition from many organised and established players in the domestic market. There are various players catering to the same market which leads to limited bargaining power of the company and consequent pressure on its margins. The industry is highly technology oriented which keeps changing from time to time. Thus, the company has to keep upgrading its work procedure according to the needs of the clients.

Rating Sensitivities

- Significant improvement in the scale of operations while maintaining the profitability.
- Sustained order-book growth.
- Further elongation in working capital cycle.

Liquidity Position Adequate

The company's liquidity position is adequate. The company generated healthy net cash accruals of Rs. 21.98 Cr. in FY2024 as against its maturing debt obligations of Rs. 2.77 Cr. In addition, it is expected to generate sufficient cash accrual in the range of Rs. 29.41 Cr – Rs. 37.90 Cr. against its nominal maturing repayment obligations in the range of Rs. 2.77 - Rs. 1.51 Cr. over the medium term. The current ratio stands at 1.20 times as on 31st March 2024. The reliance on the working capital limits is marked moderate as reflected by an average limit utilization of around ~83.50 percent in last 06 months ended September' 2024. The company maintains cash and bank balances of Rs. 0.03 Cr. as on 31st March 2024.

Acuite believes that VGPL's liquidity position would remain adequate over the medium term on account of expected generation of comfortable cash accruals to its nominal maturing debt obligation.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	61.46	58.48
PAT	Rs. Cr.	16.05	3.52
PAT Margin	(%)	26.12	6.02
Total Debt/Tangible Net Worth	Times	0.88	1.39
PBDIT/Interest	Times	12.37	4.94

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>
- 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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
12 Oct 2023	Bank Guarantee (BLR)	Short Term	2.47	ACUITE A4+ (Reaffirmed & Issuer not co-operating*)
	Cash Credit	Long Term	7.00	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
	Proposed Long Term Bank Facility	Long Term	0.33	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
	Working Capital Term Loan	Long Term	0.70	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
	Working Capital Term Loan	Long Term	1.82	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
	Term Loan	Long Term	4.68	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
01 Aug 2022	Bank Guarantee (BLR)	Short Term	2.47	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	4.68	ACUITE BB+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.82	ACUITE BB+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	0.70	ACUITE BB+ Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	0.33	ACUITE BB+ Stable (Reaffirmed)
05 May 2021	Bank Guarantee (BLR)	Short Term	2.47	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	7.00	ACUITE BB+ Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	0.33	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	4.68	ACUITE BB+ Stable (Assigned)
	Working Capital Term Loan	Long Term	1.82	ACUITE BB+ Stable (Assigned)
	Working Capital Term Loan	Long Term	0.70	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Bank of Maharashtra	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	2.47	Simple	ACUITE A3 Upgraded (from ACUITE A4+)
Bank of Maharashtra	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	7.00	Simple	ACUITE BBB- Stable Upgraded (from ACUITE BB)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	3.53	Simple	ACUITE BBB- Stable Upgraded (from ACUITE BB)
Bank of Maharashtra	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	16 Jun 2027	4.00	Simple	ACUITE BBB- Stable Upgraded (from ACUITE BB)

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About Acuité Ratings & Research

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