INP Technologies Private Limited

August 03, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	6.00	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	4.00	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	**10.00 (₹ Ten crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of INP Technologies Private Limited (ITPL) continue to be tempered by modest scale of operations albeit growth in revenues, moderately leveraged capital structure and debt coverage indicators and higher working capital utilization indicating stretched liquidity position. The rating further continues to be tempered on account of foreign exchange fluctuation risk and susceptibility to fluctuation in traded goods prices and presence of business in highly fragmented industry.

The rating, however, continues to derive benefit from the experience of promoters, coupled with having well established and reputed clientele base and improvement in profit margins resulting into higher cash accruals along with an improved operating cycle.

Key Rating Sensitivities

Positive Factors

- Increase in the scale of operations to around Rs. 100.00 crore on a sustainable basis.
- Sustainability of operating profit margins and PAT margins at around 12% and 7% respectively.
- Sustainability of operating cycle at present levels.
- Improvement in the average utilization of the working capital limits reaching below 85% on a sustained basis.
- Improvement in debt coverage indicators on a sustained basis.
- Overall gearing ratio to improve to around unity on a sustained basis.

Negative factors

- Lower than envisaged turnover and profitability margins leading to significant deterioration in cash accruals.
- Delay in despatch of orders leading to inability to achieve envisaged revenue.
- Significant deterioration in gearing levels.

Detailed description of Key rating drivers

Key rating Weaknesses

Modest scale of operations

ITPL registered growth in the Total Operating Income (TOI) by around 54.36% in FY22 as compared to FY21 (from Rs. 26.05 crore in FY21 to Rs. 40.21 crore in FY22) which can be attributed to the receipt of order of Rs. 35.00 crore from Assam Govt.'s project of procurement of educational services and supply & maintenance of ICT hardware and accessories in 200 Govt. elementary schools in Feb 2020, out of which ITPL executed order worth Rs. 12.00 crore in FY22 (in July 2021). Thus, the growth in TOI is backed by better demand from customers leading to execution of orders. The company is focusing more on education sector backed by higher demand from schools and expecting better orders from the same in near term. Nevertheless, despite increase in revenues on a y-o-y basis, the company's revenue remained on modest levels in FY22. Furthermore, ITPL has achieved total sales of Rs. 30.00 crore during April 01, 2022 to July 28, 2022.

Moderately leveraged capital structure and moderate debt coverage indicators

Despite increase in the debt level led by higher dependence on working capital bank borrowings and availment of COVID-19 support loan, the capital structure of the company marked by overall gearing ratio, improved and remained moderately leveraged at 1.31x as on March 31, 2022 vis-à-vis 1.74x as on March 31, 2021 on account of improvement in the tangible net worth base from Rs. 4.91 crore as on March 31, 2021 to Rs. 7.47 crore as on March 31, 2022 backed by accretion of profits to networth.

Given, the significant increase in the gross cash accruals, the debt coverage indicators marked by total debt/GCA improved and stood at 3.23x in FY22 vis-à-vis 8.06x in FY21. Moreover, on account of improved operating profit, interest coverage has improved from 2.32x in FY21 to 4.30x in FY22.

Working capital intensive nature of operations

The operating cycle of the company has improved from 106 days in FY21 to 86 days in FY22 on account of improvement in collection period and creditors period. However, with respect to creditors, the same is an averaging effect of the significant improvement in the scale of operation. The collection period has improved from 148 days in FY21 to 112 days in FY22 owing to

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

recovery of debtors while credit period offered to clients ranges from 30 to 60 days being given to its customers and 50% advance taken from some of its customers.
The inventory days have remained stable at around 53 days in FY22 given the faster off-take of inventory to cater to the large number of orders on time. Given all of the above, the operating cycle though improved; albeit stood moderate at 86 days in FY22 as compared to 106 days in FY21. Further, as majority portion of sales happened in the second half of the fiscal, the average utilization during past twelve months ended June 2022 stood 95% and working capital forms around 85% of total debt availed thereby exhibiting that the business of ITPL is working capital intensive.

Foreign exchange fluctuation risk and susceptibility of profits to fluctuation in traded goods prices
ITPL imports around 50% of its material from China, Taiwan and Vietnam. The initial outlay for procurement is in the form of foreign currency. However, as most of the payment is made in advance as well through import LC, the foreign exchange risk associated with the imports is mitigated to large extent. Nevertheless, the export proportion constitutes less than 1% of total sales and rest is sold in the domestic markets thereby the company is not benefiting by natural hedge. Nevertheless, foreign exchange fluctuation risk continues to persist due to timing differences.

Presence in a highly fragmented industry leading to stiff competition
The industry is highly fragmented and competitive in nature. It consists of large, well established players and unorganized small units. With the increasing competition and growing demand for cloud computing, it has become increasingly essential for the players to set up well-structured distribution network to establish their brands in the market. The same has resulted to low bargaining power against reputed customers and hence profit margins of the company stood relatively lower along with liberal credit policies adopted by the company.

Key Rating Strengths
Experienced promoters
The promoters of the company, Mr. Manoj Dubey and Mr. Vijay Jaiswal both hold an experience of around two decades in cloud computing & IT infrastructure industry. Both are engineers by qualification and prior to this were associated with ISRO and IBM respectively. Further, during FY20, Mr. Nikhil Desai & Mrs. Purvi Shah has appointed as a new director of the company who was associated with the company since more than five years having accumulated experience of more than a decade in the similar line of business. However, Mr. Manoj Dubey & Mr. Vijay Jaiswal are holding 100% shares of the company. Daily affairs & key decisions about business will be taken care by Mr. Manoj Dubey & Mr. Vijay Jaiswal only. On account of established track record of the promoters, the company has gained reputation and has established good relationships with its customers & suppliers.

Well established clientele base
The company has been dealing with various reputed clients both from private and government sector across India and has managed to get orders from them thereby mitigating the counter-party risk to an extent on the back of healthy credit profile of those reputed clients. The client base of the company remained concentrated marked by top five customers contributing to 84.80% of TOI in FY22 vis-à-vis 48.58% of TOI in FY21.

Moderate profit margins
During FY22, the company has witnessed improvement in operating profit margins and stood at 11.79% in FY22 vis-à-vis 9.52% in FY21 owing to lower overheads and better absorption of fixed costs during the year. Further, in light of growth in operating profitability and proportionate savings in interest expense, PAT margin improved from 3.28% in FY21 to 6.55% in FY22. This has resulted in higher cash accruals. However, over the past four years, the profit margins remained volatile albeit at moderate levels

Liquidity: Stretched
The liquidity position remained stretched marked by tightly matched accruals to repayment obligations. Its working capital limits remained utilized at 95% during past twelve months ended June 2022. Cash flow from operating activities was positive at 0.18 crore in FY22 as compared to negative at Rs. 1.29 crore in FY21. Current and quick ratio remained moderate at 1.42 times and 1.05 times respectively as on March 31, 2022 (vis-à-vis current ratio and quick ratio of 1.29 times and 1.06 times as on March 31, 2021 respectively). Moreover, the company had modest free cash & bank balance of Rs. 1.06 crore as on March 31, 2022 vis-à-vis Rs. 0.86 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable criteria:
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies

About the Company
INP Technologies Private Limited (formerly known as INP Computer Technology Private Limited) was incorporated in 2011 as private limited company by Mr. Sanjay Modh & Mr. Abhishek Jaiswal. The company is currently being managed by Mr. Manoj

Dubey & Mr. Vijay Jaiswal. The company is engaged in assembling of computing infrastructure known as thin client which enables customized solutions in data processing and file storage along with cloud computing. This cloud-based system helps in hardware resource optimization, reduced software maintenance and improved security. Besides, the company is engaged in providing technical support to its diverse & reputed clientele. Thin client hardware generally consists of a keyboard, mouse, monitor and jacks while its software typically consists of a graphical user interface (GUI), cloud access agents, a local web browser and a basic set of local utilities. Revenue generation from software division services constituted 25% and hardware services constituted remaining 75% in FY22. ITPL has also entered in Govt. projects (mainly Govt. school education software related) and gets orders through bidding and tendering process.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Prov.)	4MFY23* (Prov.)
Total operating income	26.05	40.21	30.00
PBILDT	2.48	4.74	NA
PAT	0.86	2.63	NA
Overall gearing (times)	1.74	1.31	NA
Interest coverage (times)	2.32	4.30	NA

A: Audited; Prov.: Provisional; NA: Not Available; *Refers to period April 01, 2022 to July 28, 2022

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	6.00	CARE BB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	2.00	CARE A4
Non-fund-based - ST-Bank Guarantee	-	-	-	-	2.00	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	6.00	CARE BB; Stable	-	1)CARE BB; Stable (02-Nov-21) 2)CARE BB; Stable (01-Apr-21)	-	1)CARE BB; Stable (03-Mar-20)
2	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A4	-	1)CARE A4 (02-Nov-21) 2)CARE A4 (01-Apr-21)	-	1)CARE A4 (03-Mar-20)
3	Non-fund-based - ST-Bank Guarantee	ST	2.00	CARE A4	-	1)CARE A4 (02-Nov-21) 2)CARE A4 (01-Apr-21)	-	1)CARE A4 (03-Mar-20)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Current Ratio	Plough back net profit in the system, retain capital and unsecured loan family members/relatives/directors etc. so as to maintain current ratio of 1:17:1
2. TOL/TNW	Total outside liabilities/tangible net worth should not be more than 4:1
B. Non-financial covenants	
1. Commitment charges	Commitment charges @ 0.50% p.a. will be made applicable in respect of unutilized portion in excess of 25% of the sanctioned limits
2. Stock Audit	Will be conducted annually by bank's appointed Stock Auditor in case of FBWC of Rs. 5.00 crore

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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