

3i Infotech Limited

February 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	237.52 (reduced from 254.27)	CARE BBB -; (Triple B Minus; Credit watch with developing implications)	Continues to be on credit watch with developing implications
Total Facilities	237.52 (Rs. Two hundred and thirty seven crore and fifty two lakhs only)		

Details of instruments/facilities in Annexure-1

CARE vide its earlier Press Release² dated January 7, 2021 had placed the rating assigned to the bank facilities of 3i Infotech Limited (3i) under 'Credit watch with developing implications' in view of the announcement regarding the proposed sale of its global software products business on a going concern basis to Azentio Software Private Limited (Azentio) for a consideration of Rs.1000 crore subject to receipt of requisite approvals. The sale of the business will help 3i Infotech to facilitate repayment of all its existing debt exposure of Rs.820 crore and leave more than Rs.150 crore to scale up other existing business segments.

CARE in light of the above events is continuing to engage with 3i's management to understand the implications on overall financial risk profile of the company and periodically seeking updates on the developments pertaining to the deal from the company's management and its bankers. Going forward it is understood that subsequent to the aforementioned transaction, 3i shall become a debt free company and retain surplus cash to the tune of Rs. 150 crore. Impact of the transaction on 3i in terms of its prospective financials, market value, investor value and brand value also remains to be seen since going forward it will be functioning exclusively as an IT Services company, whereas earlier products division had been a major revenue driver. CARE would take a final action on the rating watch based on assessment of upcoming developments associated with the aforementioned transaction. CARE may also undertake a review in the interim if warranted.

Detailed Rationale & Key Rating Drivers

The ratings continue to factor 3i's diverse product portfolio with clientele including several large banks and financial institutions globally and steady financial performance in FY20; onset of corona virus (covid19) pandemic has not disrupted the continuity of business, due to employees working from home. However, it has led to a slowdown in the deal flow and finalization of contracts which have impacted the revenue growth of the business. The ratings also draw support from adequate liquidity and long maturity period of debt. The company's performance has also remained stable for the 9 month period ending December 31, 2020. The ratings continue to remain tempered by 3i's modest financial risk profile, mid-size scale of operations, competition and ability to retain talent in the IT industry.

Key Rating Sensitivities

Positive

- Improve its scale up operations to over Rs. 800 crore and profitability margins at over 7% considering that the company will operate in IT services industry
- Expected improvement in financial risk profile post consummation of the deal

Negative

- Additional debt burden on the company, further affecting its debt coverage indicators. CARE notes that after paying off its debt, going forward 3i may also opt for non-fund based line of credit such as BG for participating in government tenders, performance BG etc.
- Any impediments causing delay or cancellation of the aforementioned transaction
- Any significant exodus of clients related to IT services post sale of its product division

Detailed description of key rating drivers

Key Rating Strengths

Company to pare debt by sale of software products business

3i Infotech Ltd. operates through two business segments viz. Services and Software Products, with the latter contributing to ~40% of its total revenue. 3i vide their Board Meeting dated December 28, 2020 announced that the board of Directors of the

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

² Please refer to the following link: https://www.careratings.com/upload/CompanyFiles/PR/07012021075323_3i_Infotech_Limited.pdf

company have approved the slump sale of the global software business of the Company (including its worldwide subsidiaries) on a going concern basis to Azentio Software Private Limited (and its affiliates) subject to receipt of requisite approvals. Sale of the Product Division is expected to be completed by March 31, 2021, subject to receipt of requisite approvals and fulfilment of customary closing conditions. Aggregate consideration for the Software Business (in and outside India) and intellectual property of up to Rs. 1000 crore. The buyer is a newly incorporated entity viz. Azentio Software Private Limited along with its parent and fellow subsidiaries (collectively "Azentio Group") worldwide. Azentio Group is wholly owned by private equity funds advised by Apax Partners. The newly formed Azentio Software will be supported by Apax Funds, with increased investments in R&D and sales and marketing. The sale of the business will also help 3i to facilitate repayment of all existing debt exposure of the company, scale up other existing business segments including providing IT services to customers across sectors and geographies and strengthen its balance sheet by reducing debt. Following the transaction, 3i will continue to pursue strategic growth initiatives in the IT services business.

Diversified client and product portfolio

3i Infotech Ltd. operates through two business segments viz. Services and Software Products. The Services segment, under the brand Altiray, provides consulting services, business optimisation services and an extensive expertise in mobility, data analytics, big data, testing and application development. The Software Products business comprises a comprehensive set of core software products for customers in banking, financial services and insurance ("BFSI") verticals and includes key products such as Kastle (universal banking platform), AMLOCK (financial crime detection and compliance software suite), Premia Astra (core insurance software), MFund Plus (asset management platform) and Orion (enterprise resource planning software). The company has over a period of time set up several global subsidiaries which act as the marketing arm of the company across the globe while the parent does the execution of the contracts. Owing to its presence across the globe the company is able to serve its clients by offering various products and services. The clients are spread across banking, finance and insurance sectors mainly. A majority of the company's revenue is export based. Further the company also provides the services of BPO, staffing along with IT infra management and software services leading to a diversification in the product mix.

Stable performance during 9MFY21 notwithstanding subdued economy due to coronavirus pandemic

Although on-set of coronavirus pandemic has not disrupted the continuity of 3i's business, due to employees working from home, however, it has led to a brief slowdown in the deal flow and finalization of contracts which have partly impacted the revenue growth of the business. The company has reported a stable performance for 9MFY21 reporting a TOI of Rs. 774.09 crore. The company's PBILDT margins also improved from 15.76% during corresponding period last year to 17.67%.

Key Rating Weaknesses

Modest financial risk profile

The capital structure of the company is leveraged with large debt coverage indicators such as Total Debt/Gross Cash Accruals of 10.61x as on March 31, 2020. Debt is high as the products of the company owned by them were by way of debt funded acquisitions done in the earlier years. In view of the foregoing, the financial flexibility of the company/ability to raise resources is constrained, also due to its past track record of being involved in debt restructuring. Although on-set of coronavirus pandemic has not disrupted the continuity of 3i's business, due to employees working from home, however, it has led to a slowdown in the deal flow and finalization of contracts which have impacted the revenue growth of the business.

Mid-size scale; industry subject to competition from large players & high attrition among workforce

The industry in which 3i operates is dominated by very large domestic and multinational players, compared to which 3i's scale of operations is much smaller as it's a mid-size player. 3i faces intense competition from these players which constrains its revenue and profitability. Further, the skilled human resources forms an integral part of the organisations such as 3i. Ability to retain quality talent continues to be a challenge in the IT industry

Liquidity: Adequate

Total cash & bank balance was Rs. 112 crore as on September 30, 2020. 3i manages its working capital requirement through internal accruals. Long maturity period of debt under restructuring scheme augurs well for liquidity of the company. The company has also not opted for the moratorium under RBI's covid relief package. Further, CARE understands that subsequent to the repayment of company's outstanding debt from the aforementioned sale proceeds and transfer of assets, surplus cash to the extent of ~Rs. 150 crore is likely to be retained within 3i, which is expected to be used towards scaling up of its IT services business. This is further expected to support the liquidity going forward.

Analytical approach: CARE has taken a consolidated view of 3i Infotech Limited and its subsidiaries as per list enclosed in Annexure-4

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)
[Rating Methodology - Service Sector Companies](#)

About the Company

3i Infotech limited (formerly known as ICICI infotech Limited) was set up in 1993 by the erstwhile ICICI Ltd as a back office processing company. The company has presence across the globe with delivery centers in over 20 countries across AsiaPacific, Middle East, North America and Western Europe. The company has 4 development centers in India, namely in Vashi (Navi Mumbai), Hyderabad, Chennai and Bengaluru. 3i operates through two business segments viz. Services and Software Products and caters to diversified clientele across multiple geographies. The company was listed in BSE in April, 2005.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	9MFY21 (UA)
Total operating income	1136.46	1149.43	774.09
PBILDT	159.12	179.51	136.81
PAT	68.15	68.03	43.21
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	1.89	1.99	2.13

A: Audited; UA: Unaudited; NM: Not meaningful

Status of non-cooperation with previous CRA: Nil

Any other information: Nil.

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2024	237.52	CARE BBB- (Under Credit watch with Developing Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	237.52	CARE BBB- (Under Credit watch with Developing Implications)	1)CARE BBB- (Under Credit watch with Developing Implications) (07-Jan-21)	1)CARE BBB-; Stable (28-Jan-20)	-	-

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

Annexure 4 : List of subsidiaries factored in consolidation

Particulars	%Holding as on March 31, 2020
3i Infotech Consultancy Services Limited	100%
3i Infotech SPO Limited	100%
Professional Access Software Development Private Limited	100%
3i Infotech Middle East) FZ LLC	100%
3i Infotech Software Solutions LLC	100%
3i Infotech Inc	100%
3i Infotech SDN BHD	100%
3i Infotech Thailand) Limited	100%
3i Infotech Asia Pacific Pte Limited	100%
3i Infotech Services SDN BHD	100%
3i Infotech UK Limited	100%
Ji Infotech Western Europe) Group Limited	100%
3i Infotech Western Europe Holdings Limited	100%
Rhyme Systems Limited	100%
3i Infotech Saudi Arabia LLC	100%
3i Infotech Holdings Private Limited	100%
Ji Infotech Africa Limited	100%
3i Infotech (South Africa) (Pry) Limited	100%
Elegon Infotech Limited	100%
Locuz Inc.	100%
3i Infotech Cyprus) Limited (formerly known as Black-Barret Holdings Limited)	100%
3i Infotech Netherlands B.V.	100%
3i Infotech Nigeria Limited	100%
3i Infotech (Canada) Inc	100%

Annexure 5: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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