

Alankit Limited

June 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	13.00	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed and removed from Credit watch with Developing Implications; Negative outlook assigned
Short Term Bank Facilities	3.00	CARE A3 (A Three)	Reaffirmed and removed from Credit watch with Developing Implications
Total Bank Facilities	16.00 (Rs. Sixteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Alankit Limited (AL) continue to draw strength from the experienced promoters, diversified product offering, geographically diversified service network and comfortable capital structure. The ratings, however, are constrained by high exposure to its subsidiaries to the tune of 40.44% of its net worth during FY22 (refers to period from April 01 to March 31) coupled with higher contingent liability w.r.t income tax demand of Rs. 174.61 crores. The ratings also take cognizance of the high dependence of the company on continuation of government schemes and significant exposure of AL to its wholly owned subsidiaries.

Further the credit watch on the rating has been removed considering that there is no major development in the dispute with NSDL and considering that the claim by the NSDL is of Rs.20cr is against the company which is 26.30% of the adjusted net worth (after excluding goodwill from net-worth) of the company as on March 31, 2022. Also, despite of the contract discontinuance from NSDL, there has been not much impact on the operational performance of the company during FY22 as can be seen by PBILDT and GCA of Rs.22.89cr and Rs.17.23cr respectively during FY22 as compared to PBILDT and GCA of Rs.23.57cr and GCA of Rs.18.14cr respectively during FY20

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained Increase in scale of operations by 30% or more with increase in profitability margins (at PBILDT Margin of 25% or more) on a sustained basis.
- Ability of the company to manage its working capital requirements while timely realizing from its debtors.
- Ability of the company to reduce its group exposure

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant Increase in the working capital Cycle on a sustained basis
- Decline in income by more than 15% or decline in PBILDT Margin by more than 300 bps from the current levels in any of the year going forward.
- Deterioration in its Capital Structure (Overall Gearing of more than 0.45x in the projected period)

Outlook: Negative

CARE has assigned negative outlook considering higher contingent liability of Rs 174.61 crores w.r.t Income tax demand order u/s 156 of the income tax act,1961 dated May 24,2022, against search and seizure operations conducted from October 18,2019 to October 23,2019. Although the company is under process of filing appeal with Appellate Authority against the additions made but considering the large amount of demand as compared to the net-worth of the company, any adverse demand against the company can have major impact on the financial risk profile of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Incorporated in July 1989, Alankit Limited (AL) was promoted by Mr. Alok Kumar Agarwal initially and later discontinued from the directorship in Jul 2021 and doesn't hold any shareholding in the company. Presently, Mr. Ankit Agarwal (Managing Director) is managing the operations of the company with more than 10 years of experience in the field of finance and research activities. The board also consists of Mr. Yash Jeet Basra (Independent Director/Chairman) who has 47 years of experience in financial services industry, handling compliances and corporate consultancy. The management of AL is supported by a team of experienced and qualified professionals who are involved in day-to-day operations of the company.

Established and geographically wide service network

AL offers various E-Governance services through its established and wide service network with 21 regional offices spread across at 6120 business locations across India. Further, during FY16 AL become a GSP (GST Suvidha Provider) under GSTN. Also,

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

during FY18, company got a license from Controller of Certifying Authority (CCA) to operate as a Certifying Authority (CA) for issuance of Digital Signature Certificate and started to operate as a Full-Fledged Money Changers (FFFMC) for which license was issued by Reserve Bank of India (RBI) to one of its wholly owned subsidiaries.

Diversified product offering

AL has strong presence in the E-Governance space with wide and diversified product offerings. The company generates revenue majorly from E-Governance Services. The major services offered by Alankit Limited include GST Suvidha Provider, TIN Facilitation Center & PAN Center (independently), Authorised Person (AP) for National Insurance - policy Repository (NIR), Point of Service (POS) for National Skills Registry (NSR), Manpower Services, Facilitator for Atal Pension Yojana (APY), Business Correspondent (BC), Aadhaar Services, National Distributor for Smart Card Printers, Authentication User Agency (AUA), KYC User Agency (KUA). Apart from that company is also in the business of Sale of Printers, Ribbons, PVC Cards used for printing of Govt. cards.

Moderate financial profile with Comfortable Capital Structure

The financial performance of the company has remained satisfactory with PBILDT Margin of the company has increased to 22.06% in FY22 as against 19.11% in FY21. Total debt of the company increased and stood at Rs. 19.63 crore as on March 31, 2022, as company has availed additional unsecured loans from corporate including related parties other than financial institutions. Overall gearing of the company remains adequate to 0.26x as on March 31, 2022 (PY 0.21x). During FY22, the total operating income of the company remained constant at Rs. 103.76 crores as compared to Rs. 103.99 crores during FY21. The PBILDT and PAT margin stood at 22.06% and 9.70% respectively during FY22 as compared to 19.11% and 9.67% during FY21.

Key Rating Weaknesses

High Exposure to wholly owned subsidiaries

Overall investment in subsidiaries remains in similar lines from past one year and total investment stood at Rs 40.68 crores which comprises almost 40.44% of gross net worth including intangible assets as on March 31, 2022. During Financial Year 2020-21 company has invested in equity worth of Rs 12.30 Cr of Alankit Imagination Limited resulting in total investment of Rs 40.68 crores in FY21 against Rs 28.38 Cr in FY20 which remains constant during FY22. However, Board vide board meeting dated May 30, 2022 has approved investment in subsidiary i.e., M/s Verasys Technologies P Ltd of up-to Rs 50 crores subject to regulatory approval which will further increase investment in subsidiary during FY23.

AL's total exposure to its wholly owned subsidiaries by way of investments in equity shares was Rs. 40.68 crore, equivalent to 40.44% of its net worth as on March 31, 2022, which stood increased as against 43.99% of the tangible net worth as on March 31, 2021. Company has invested around ~Rs. 12.30 crores in Alankit Imagination Limited during FY21. Company has plans to set Alankit Imagination as a discount brokerage company. Currently this business is under Alankit assignments, and it will be bought by Alankit Imagination. Going forward, any adverse impact on the financial risk profile of AL on account of its exposure towards the group companies would be a key rating sensitivity. Ability of AL to reduce its exposure towards the subsidiaries and group companies will be a key monitorable going forward.

High Dependence on Government Schemes

AL is majorly dependent upon central and state government schemes for its e-governance business. Stability and continuance of all these government backed schemes remains uncertain. AL accepts PAN applications through PAN centres set up across the country and through AL's online portal. Also, AL is associated with leading banks as well as the distinct State Govt. centres to provide Aadhaar Services. In case of banks, the services are provided through the designated branches of these banks and in case of State Govt. centers, services are offered through Deputy Commissioner (DC) offices in districts at Government premises, identified and approved by the concerned District Magistrate/Sub Divisional Magistrate. The services offered include fresh enrolment, uploading of details, correction/ updation in Aadhaar etc. Earlier, these said services were offered through company's own centers spread across the country. Payment for these services rendered is received after the satisfactory report from the government officer which might pose problem.

For the business correspondent services and manpower outsourcing consultancy services it is dependent on banks and government departments. As a business correspondent for a number of leading banks of the country, the company provides banking services as and when required by the company's associated banks at given location and time. Being a service provider for these banks, Alankit essentially helps in enrolling customers and enabling their transactions at the Customer Service Points (CSPs) besides sourcing various deposit and loan products of the bank as a business facilitator.

Further, AL operates on a small scale with volatile revenue trend from its business segments and most of the business of the company largely depend upon government schemes whose continuation might become an issue due to change in government or change in the focus area by the government departments or ministries.

Further, company is under dispute with NSDL regarding termination of agreement as PAN facilitation centre in June 2020, the matter is still sub-judice and NSDL has filled claim of Rs ~20 crores for which provisioning has not been done in financials whereas company has filled counter claim of Rs~68 crores on NSDL for their pending dues. Besides that, there is also an ongoing ED investigation on Ex-Director Mr Alok Kumar Agarwal regarding his alleged involvement in facilitating cross border transaction in violation with the local rules and regulation. Both the matters are currently pending with the judicial authorities and any adverse impact of the same on the financial risk profile of the company would be key rating sensitivity. Besides that, Company has received income tax demand of Rs. 174.61 crores against search and seizure operations conducted by income tax

department u/s 132 of the income tax act,1961, from October 18,2019 to October 23,2019. However, company is under process of filling appeal with Appellate Authority against the additions made and appeal will be filed within time allowed by law. However, the management is of the opinion that no liability is likely to arise from these additions after decision of the appellate authorities.

Liquidity: Adequate

The liquidity position of the AL is adequate marked by gross cash accruals of Rs 17.23 crores against term debt repayments of Rs 0.61 during FY23 since company has lower term debt with longer repayment tenure of 15 years. Further, the current ratio and quick ratio of the company remains comfortable as at March 31,2022. Cash and bank balances of the company stood at ~Rs. 2.02 crores as on March 31, 2022, and Rs. 2.89 crores as on March 31,2021. However, the company has working capital limits of Rs.5 crores, which remain almost fully utilized due to lower limit and large receivable from various customers.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Nonfinancial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

About the Company

Alankit Limited (AL) was incorporated in July 1989 as G.D.M. Jewelry Manufacturing Company Private Limited for manufacturing of gold jewelry products, later in February 1994 changed its name to Euro Gold Jewelry Limited. From May 2009, the company changed its business into share and commodity trading and broking, and the name of the company was changed to Euro Finmart Limited. Later in August 2014, company diversified into e-governance services and the name of the company was changed to the present one. AL is headquartered in New Delhi with network of 21 regional offices across the country & presence in 3 overseas locations- London, Dubai & Singapore. AL is mainly into the business of E-Governance.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (A)
Total operating income	130.38	103.99	103.76
PBILDT	23.57	19.87	22.89
PAT	12.69	10.06	10.06
Overall gearing (times)	0.21	0.21	0.26
Interest coverage (times)	6.88	5.56	15.90

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE BBB-; Negative
Non-fund-based-Short Term		-	-	-	3.00	CARE A3
Fund-based - LT-Term Loan		-	-	March 2034	8.00	CARE BBB-; Negative

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB-; Negative	-	1)CARE BBB- (CWD) (04-Mar-22)	1)CARE BBB- (CWD) (01-Mar-21) 2)CARE BBB (CWN) (16-Jun-20)	1)CARE BBB; Stable (07-Feb-20)
2	Non-fund-based-Short Term	ST	3.00	CARE A3	-	1)CARE A3 (CWD) (04-Mar-22)	1)CARE A3 (CWD) (01-Mar-21) 2)CARE A3 (CWN) (16-Jun-20)	1)CARE A3 (07-Feb-20)
3	Fund-based - LT-Term Loan	LT	8.00	CARE BBB-; Negative	-	1)CARE BBB- (CWD) (04-Mar-22)	1)CARE BBB- (CWD) (01-Mar-21)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**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	Fund-based - LT-Term Loan	Simple
3	Non-fund-based-Short Term	Simple

Annexure 5: Bank Lender Details for this CompanyTo 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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