

Inspirisys Solutions Limited

October 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	5.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	25.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Assigned
Short Term Bank Facilities	2.60	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	32.60 (₹ Thirty-Two Crore and Sixty Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Inspirisys Solutions Limited (ISL) takes into account the strong support from the parent – CAC Holdings Corporation, Japan, established track record of operations and diversified services offered. However, the ratings is constrained by moderation in revenue and profitability margins of the company, exposure to subsidiary, stretched collection period, highly competitive nature of the IT industry.

Rating Sensitivities

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

- Improvement in PBILDT margin above 15%
- Improvement in average collection period to about three months

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

- Any withdrawal in support extended by parent, CAC Holdings Corporation, Japan
- Deterioration in the credit risk profile of parent, CAC Holdings Corporation, Japan
- Loss reported by the company on a consistent basis

Detailed description of the key rating drivers

Key rating strengths

Long track record of operations and strong relationship with multiple vendors

ISL continues to be an established player in the IT Infrastructure Solution (IT IS) and IT Infrastructure Management Services (IT IMS) segments with nearly three decades of experience and a nationwide presence backed by nine regional offices, three development centres and over 100 direct service locations. The revenues of ISL are broadly diversified between its three different verticals, System Integration (Product & Hardware), Services (Infrastructure solutions, Software development, Product Engineering Development, Security, Cloud), and Warranty Management Services (WMS). ISL has established strong relationships with technology vendors supporting a diversified product range.

Integrated business segments

The company derives majority of its revenue from BFSI and PSU segments. The company has developed an in-house web-based software solution 'GBM – Govt. Business Module' and an upgraded version 'GBM Ultra' which helps the bank to access Govt. portals towards payment of taxes, PF, etc. The company also develops embedded system software as a part of its product engineering development wing to HP printers.

The company also procures various IT hardware via an intermediary/ global distributor as required and supplies to BFSI, PSU, Telecom industries. In order to get repeat business, the company positions itself as system integrator where IT services are provided as a complement to IT products rather than selling as standalone products.

ISL is also one of the implementing partners of 'Finacle' software by Infosys Ltd to banks.

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

Diversified service offerings

ISL's service offerings include digital strategy advisory, customer-centric design, technology consulting, IT consulting, custom application design, development, re-engineering and maintenance, systems integration, package implementation, global infrastructure services, analytics services, business process services, research and development and hardware and software design to leading enterprises worldwide

Continuous support from parent - CAC Holdings Corporation

CAC Holdings Corporation (CAC) was established in 1996 at Tokyo, Japan. Since its acquisition of ISL in 2014, CAC has infused equity as well as provided/extended unsecured loans to ISL to enable it to manage its working capital. Apart from this, CAC has also provided corporate guarantee to the working capital lines of ISL which were availed from Japanese banks. As on Dec 31, 2020, CAC's overseas sales is about 20% of its TOI, of which 60% is from ISL. TOI of CAC as on Dec 31, 2020, was Yen 48,539 Mn. and PAT was Yen 1,722 Mn.

Key rating weaknesses**Moderation in revenue and profitability margins**

ISL registered a drop in TOI of 8.58% in FY22 at Rs.302 Cr (PY: Rs.329 Cr), which was mainly contributed by reduced revenue generation from System Integration segment, where most of the client's workplace were closed and decisions on IT infrastructure upgrade/capex additions were delayed on account of COVID-19 pandemic uncertainties. Company registered sales of Rs.80.17 Cr in Q1FY23 (Prov.). PBDILT margin was at 6.44% in FY22 (PY: 5.40%), and the same has improved to 7.95% in Q1FY23 (Prov.).

Exposure to subsidiaries

There are currently two operating subsidiaries: Inspirisys Solutions DMCC, Dubai (ISDMCC) and Inspirisys Solutions North America (ISNA). ISNA is primarily used to serve clients in the USA and work is outsourced to India and ISNA reimburses ISL upon receipt of payment from US based clients. The subsidiary in Dubai serves clients in BFSI and Government sector in the middle east region. However, the operations in Dubai were impacted due to COVID-19 and other macro-economic factors, as a result the subsidiary had accumulated losses and resulted in negative net worth as on March 31, 2022. ISL has recognised a provision for the carrying value of investment/loans extended/receivables of Dubai subsidiary to the tune of Rs.7.57 Cr in the financial statements as on March 31, 2022. ISL has receivable to the tune of Rs.36.82 Cr from ISNA as on March 31, 2022.

Client concentration risk

Even with the diversified segments, the company faces moderate client concentration risk. It derives 48% of its revenue from top 10 customers. In Q1FY23, the revenue concentration from top 10 customers increased to 69% of which 47% was contributed from BFSI segment.

Highly competitive nature of IT industry

The segments in which the company operates such as software development/maintenance and ITES are highly competitive with major established players and other small-scale players. This can affect the pricing flexibility of the company limiting its ability to improve its margin due its limited market share/brand image recognition. Additionally, wage inflation, employee attrition levels, global economic concerns such as slowing US and European economies are expected to moderate growth in IT industry in the near term

Liquidity: Adequate

Operating cycle was stretched due to long-pending receivable from subsidiary. Excluding that, the collection period as on March 31, 2022, was at 79 days, payable period at 51 days, inventory period at 11 days, making the operating cycle comfortable at 39 days. The company's banking lines from the Japanese banks, Sumitomo Mitsui Banking Corporation and Mizuho Bank Limited are secured by corporate guarantee from the parent company, CAC Holdings Corporation. Monthly utilization of WC limit for the 12-month period ended June 22 is 18%. Company has maintained free cash balance of Rs.16.75 Cr as on March 31, 2022. The company's BG limit of Rs.2.60 Cr Axis Bank is backed by 100% cash margin.

Analytical approach: Standalone

Applicable criteria

- [Policy on default recognition](#)
- [Factoring Linkages Parent Sub JV Group](#)
- [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

ISL was incorporated on June 08, 1995, in the name of Accel Computers Limited as a public limited company. The name of the company was changed from 'Accel Frontline Limited' to 'Inspirisys Solutions Limited' in FY19. Inspirisys Solutions Limited (ISL) is engaged in providing IT infrastructure and Software services. During January 2014 CAC Holdings Corporation (CAC)- Japan acquired 51% stake in ISL through share purchase from promoters and through open offer and currently holds 69.95% of the shares of ISL.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY2023 (Prov.)
Total operating income	328.92	302.41	80.17
PBILDT	17.75	19.49	6.37
PAT	0.48	0.29	--
Overall gearing (times)	1.19	0.95	--
Interest coverage (times)	2.55	3.54	3.64

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	ISI N	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	2.60	CARE A3
Non-fund-based - LT/ST-Bank Guarantee		-	-	-	25.00	CARE BBB-; Stable / CARE A3
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE BBB-; Stable

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	Non-fund-based - ST-BG/LC	ST	2.60	CARE A3	-	1)CARE A3 (16-Nov-21)	1)CARE A3 (01-Dec-20)	1)CARE A3 (26-Dec-19)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST *	25.00	CARE BBB-; Stable / CARE A3				
3	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB-; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA
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 - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - ST-BG/LC	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 instruments: CARE Ratings 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.

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Parvathavardhini Natarajan
Phone: +91 - 44 - 2849 0811/ 2849 0876
E-mail: P.Natarajan@careedge.in

Relationship contact

Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**