

Inspirisys Solutions Limited

November 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Short Term Bank Facilities	2.60	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	2.60 (Rs. Two Crore and Sixty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facility of Inspirisys Solutions Limited (ISL) continues to take into account the strong parentage of the company and long-standing relationship with multiple vendors. Furthermore, the rating also factors in the continuous financial support from the parent company CAC Holdings Corporation (CAC) in the form of equity, loans and corporate guarantees. The rating is, however, constrained by the moderate client concentration risk, elongated operating cycle and highly competitive nature of the IT industry. CARE Ratings also takes note of the moderation in revenues, operating margins and profitability of the company over the past two years.

Rating Sensitivities

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

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

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

- Any withdrawal of the support extended by CAC
- Deterioration in the credit risk profile of CAC
- Losses reported by the company on a consistent basis

Detailed description of the key rating drivers

Key Rating Strengths

Established 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 over two decades of experience and a nationwide presence backed by eight regional offices and over 100 direct service locations. The revenues of ISL are broadly diversified between its three different verticals, Products (formerly System Integration), Services and Warranty Management Services (WMS).

Integrated business segments: In the Products division (System Integration), ISL buys IT products and solutions from various vendors and supplies them to its clients and also closely works with the vendor for designing the infrastructure. Services Division involves installation and maintenance of solutions like additional server space or setting up the IT backbone for a new branch of a bank or setting up data centres for a private cloud and it is also engaged in the sales of in-house software. In WMS division, the company provides after sales service for products under warranty with companies like Seagate. In order to get repeat business, the company positions itself as system integrator where IT products are provided as a complement to IT services rather than selling as standalone products. ISL has established strong relationships with major technology companies to offer services around their products apart from other technology vendors supporting a diversified product range. ISL is also one of the implementing partners of Finacle by Infosys.

Diversification of services offered: The services provided are diversified 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 the parent: Since its acquisition in 2014, CAC has infused equity and provided unsecured loans into ISL to enable it to manage its working capital. Over and above the assistance provided by way of equity infusions and unsecured loans, in the past, CAC has also enabled ISL to reduce its interest expenses by providing access to working capital facilities from Japanese Banks. These banking lines are backed with corporate guarantees from CAC.

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

Key Rating Weaknesses:

Moderation in revenue and profitability in FY21 and H1FY22: The company's revenue and subsequently the profits dropped in FY21 (refers to the period April 1 to March 31) mainly on account of COVID. Government and PSU orders, which form a major portion of the company's revenue, saw delay in orders due to reduced government spending. Warranty business also was affected due to COVID with lockdown in place. However, banking and software did not see too much of an impact.

The company is continuing to face margin pressures in products business post-COVID since the competition is mainly on low pricing. In H1FY22, the company has reported a loss of Rs. 7.04 crore on a total revenue of Rs.183.69 crore with increase in losses from System Integration vertical. However, the software and banking business has a gross margin of more than 25%. With increasing orders from banking and own software clients, the company sees the revenue and margins stabilizing going forward.

Client concentration risk: Even with the diversified segments, the company has a moderate client concentration risk. It derives 55% of the TOI from top 10 customers and 42% of the TOI from top 5 customers. In H1FY22, the concentration in top 10 customers was around 54%.

Exposure to loss-making subsidiaries: Currently, two subsidiaries are in operation - Inspirisys Solutions DMCC (ISD) and Inspirisys Solutions North America (ISNA). ISNA is mainly used to serve clients in the US and the work is offshored to India and ISL is reimbursed by ISNA after receiving payment from US-based clients. Considering the significant uncertainties arising from ongoing Covid-19 pandemic, as a matter of prudence, ISL has recognised a provision for the carrying value of investment of Rs 3.73 crore in the financial statements as on March 31, 2021. The management has plans for turning around the business of ISNA, however, it has been kept on hold as a result of COVID and other macro-economic situations. Out of the total receivables of Rs.108.59 crore as on March 31, 2021, Rs.32 crore is from ISNA. Inspirisys Solutions DMCC (ISD), the subsidiary based in Dubai serves clients in the BFSI and Government sector in the middle-east region.

Elongated Operating Cycle: Since PSU entities comprise a significant portion of clients, the operating cycle of the company is elongated to around 80-90 days. The receivable cycle was stretched in FY20, but the company has ensured timely collection from FY21 and has maintained the average collection period at 128 days. The company extends a credit period of 120-160 days to system integration clients (mostly banks and PSUs) and 90 days to other clients. The company has back-to-back arrangement with most of its creditors and makes payment on receipt of collections.

Intense competition in the IT industry: The IT-IS & IT-IMS segments in which the company operates are highly competitive with major established players and other small scale players. The competition can also affect the profit margins as the company has to offer services at a lower price and good credit terms to attract customers. Additionally, wage inflation, employee attrition levels and adverse changes in U.S. laws, including those relating to outsourcing and immigration inherent to the IT services sector remain challenges in the future.

Liquidity – Adequate

The company has free cash and bank balances of Rs.16.86 crore as on September 30, 2021. With the support of the parent company, ISL has credit lines in Japanese banks SMBC and Mizuho Bank. The company has total fund-based limits of Rs.60 crore to fund its working capital requirements and the average utilisation for 12-month period ended September 2021 was nil. The company has a working capital demand loan of Rs.15 crore. All these Bank facilities are secured by Corporate Guarantees provided by CAC Holding Corporation. The company also has a Bank Guarantee facility from Axis Bank of Rs.2.60 crore. It is to be noted that the company has unsecured loans from CAC of Rs.43.69 crore as on March 31, 2021, due for repayment in FY23. However, since the loan is from the parent, the support from the parent is expected to continue and the loan being rolled over.

Analytical approach: Standalone

Applicable Criteria

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

[Criteria for Short-term Instruments](#)

[Rating Methodology - Service Sector Companies](#)

[Rating Methodology: Factoring Linkages in Ratings \(Parent-Subsidiary Linkage\)](#)

[Liquidity Analysis – Non- Financial sector](#)

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

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. ISL operates under three different verticals, viz., Products (formerly System Integration), Services (Combination of erstwhile Information Management and Software Services divisions)

and Warranty Management Services (WMS). During January 2014, CAC Holdings Corporation (CAC)- Japan acquired 51% stake in ISL through share purchase from promoters and through open offer. As on September 30, 2021, CAC held 69.95% of the shares of ISL and remaining is held by public.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	353.20	328.92	160.85
PBILDT	35.25	17.75	1.34
PAT	6.57	0.48	-4.85
Overall gearing (times)	1.72	1.19	NA
Interest coverage (times)	2.81	2.55	0.45

A: Audited; Prov.: Provisional

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
Non-fund-based - ST-BG/LC		-	-	-	2.60	CARE A3

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (18-Sep-18)
2	Non-fund-based - ST-BG/LC	ST	2.60	CARE A3	-	1)CARE A3 (01-Dec-20)	1)CARE A3 (26-Dec-19)	1)CARE A4+ (18-Sep-18)

* 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	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 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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careratings.com

Analyst Contact

Name: Jaganathan A
Contact no.: +91-22-2850 1000
Email ID: jaganathan.a@careratings.com

Relationship Contact

Name: Pradeep Kumar V
Contact no.: +91-44-2850 1001
Email ID: pradeep.kumar@careratings.com

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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