

Inspirisys Solutions Limited

October 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	5.00	CARE BBB; Stable	Revised from CARE BBB-; Stable
Long Term / Short Term Bank Facilities	25.00	CARE BBB; Stable / CARE A3+	Revised from CARE BBB-; Stable / CARE A3
Short Term Bank Facilities	2.60	CARE A3+	Revised from CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Inspirisys Solutions Limited (ISL) takes into account the sharp improvement in the scale of operations and profits during FY23 and consequent healthy liquidity profile of the company marked by a comfortable free cash balance and minimal utilization of working capital limits. The ratings are constrained by the exposure to the subsidiaries which have been a drag on the overall financial risk profile of ISL. However, comfort is drawn from the support of its the parent – CAC Holdings Corporation, Japan. Further, the competitive nature of the IT industry which limits the pricing flexibility in the midst of rising costs and wage inflation, constrain the rating.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Any withdrawal in support extended by parent, CAC Holdings Corporation, Japan.
- Increase in investment or exposure to the loss-making subsidiaries with gearing adjusting for exposure to subsidiaries exceeding 1.5x.

Analytical approach: Standalone

Outlook: Stable

With the long track record of operations and the support from the strong parent, the performance of ISL is expected to be stable in the medium term.

Detailed description of the key rating drivers:

Key strengths

Integrated business segment and strong relationship with established track record and diversified service offerings

ISL continues to be an established IT infrastructure solution and service provider with nearly three decades of experience and nationwide geographic presence backed by nine regional offices, three development centers and over 100 direct service locations. ISL has established strong relationships with technology vendors and customers. The revenues of ISL are broadly diversified between its three different verticals, Services (Infrastructure solutions, Software development, Product Engineering Development, Security, Cloud) (66%), System Integration (Product & Hardware) (31%), and Warranty Management Services (WMS) (~3%). Clientele of the company is diversified across BFSI (48%), Telecom (12%), Manufacturing (12%), PSU (7%) and others (19%).

Strong Parentage from CAC Holding Corporation

CAC Holding Corporation, Tokyo based IT service provider, holds 69.95% stake in ISL. CAC has also infused unsecured loan to support the ISL operation (Rs 40.82 crores as on March 23) and extended corporate guarantee for the working capital limits it availed from Japanese Banks. Two representatives of CAC are there on the board of ISL. CAC has also been extending line of support in the form of corporate guarantee and unsecured loan to the subsidiaries of ISL as well. Unsecured loan extended by CAC at consolidated level stood at Rs 69.72 crores as on March 31, 2023.

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

Improvement in scale of operations and profitability

Topline and profitability margins witnessed improvement during Financial Year 2023 at Rs.357 Cr as TOI and 9.08% as PBILDT margin (PY: Rs.299 Cr as TOI and 5.34% as PBILDT margin) largely on the back of better order execution by the company in the last quarter of the financial year.

Against the net worth base of Rs.80.90 Cr as on March 31, 2023, the overall gearing of the company stood at 0.55x. The interest coverage also stood comfortably at 4.99x during FY23.

Key weaknesses

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, 2023. ISL has decided to initiate the process of winding up the Dubai subsidiary. ISL has already recognized a provision of Rs 7.57 crores for the carrying value of investment/receivables from the UAE subsidiary during FY'2022 and the proposed liquidation may not have much material impact on the stand-alone financial position of ISL. ISL also has receivables from ISNA to the tune of Rs 40.33 crores as on March 2023 of which nearly Rs 38.00 crores is due since 2019. ISL has not yet recognized provision for this longstanding receivable as they are exploring various options to turn around the business and to realize the dues. However, the overdue position of the group receivables are mitigated to a great extent by the unsecured loan from CAC in ISL books.

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 on a sustainable basis. Additionally, wage inflation, employee attrition levels, global economic concerns such as slowing US and European economies are expected to moderate growth in IT/ITES industry in the near term.

Liquidity: Adequate

Company has generated gross cash accrual worth Rs 23.53 crores and maintained cash bank balance of Rs 29.08 crores as on March 31, 2023. The company does not have any major term loan repayment commitments except few vehicle leasing repayments worth Rs 1.82 crores during FY'24. Liquidity position expected to remain stable during FY'24 backed by the continuation of growth momentum. Average working capital cycle improved during FY'23 to 71 days (PY: 81 days). Excluding the group receivables, working capital cycle would stand further improved at 26 days during FY'23 (PY: 55 days) backed by the improved business and collection during Q4FY'23. Working capital limit utilization remained moderate (~14%) for the 12-month ended March 2023 and overall liquidity profile appears adequate for the company.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Information Technology	Information Technology	IT - Services	IT Enabled Services

Inspirisys Solutions Limited (ISL), incorporated in 1995, headquartered in Chennai, is engaged in providing IT and IT Enabled Services (ITES). Company offers its product offerings under three segments namely System Integration (SI), IT Services and Warranty Management Services (WMS) which includes installation and commissioning of hardware projects, service and maintenance of hardware/software infrastructure of the customers and warranty solutions for imported and indigenous equipment where OEMs do not have geographical presence in India. 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, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	298.87	356.89	82.07
PBILDT	15.95	32.43	8.74
PAT	0.29	17.96	4.18
Overall gearing (times)	0.95	0.55	--
Interest coverage (times)	2.90	4.99	5.75

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

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

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 2023-2024	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
1	Non-fund-based - ST-BG/LC	ST	2.60	CARE A3+	-	1)CARE A3 (07-Oct-22)	1)CARE A3 (16-Nov-21)	1)CARE A3 (01-Dec-20)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	25.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (07-Oct-22)	-	-
3	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (07-Oct-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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

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About us:

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