CSM Technologies Private Limited

February 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	26.50	CARE BBB; Stable	Assigned
Long-term/Short-term bank facilities	23.50	CARE BBB; Stable/CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of CSM Technologies Private Limited (CSM) derive strength from professionally qualified and experienced promoters and management, association with reputed clientele across various end-user markets but with client concentration risk, satisfactory order book position, satisfactory profitability margin and comfortable financial risk profile. However, the ratings are constrained by moderate scale of operations, modest net worth base, tender-based nature of operations, foreign exchange fluctuation risk and exposure to changes in government regulations and intense competition and industry risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations resulting in total operating income (TOI) of more than ₹250 crore along with sustenance of current profit before interest, lease rentals, depreciation and tax (PBILDT) margin of more than 15%
- Networth base of more than ₹75 crore

Negative factors

- Substantially dipping TOI by more than 20% and moderation in PBILDT margins to below 12% on sustained basis
- Higher-than-expected capital expenditure (capex) leading to moderation in capital structure marked by overall gearing of more than 0.80x on sustained basis

Analytical approach: Consolidated financials of CSM as the subsidiaries are into same line of business and are operating under the common management. The subsidiaries of CSM that have been consolidated are mentioned under **Annexure-6.**

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes CSM will continue to benefit from the extensive experience of promoter in the same line of business and the scale of operations is expected to increase in the near term backed by satisfactory order book position while maintaining current operating margins.

Detailed description of the key rating drivers:

Key strengths

Professionally qualified and experienced promoters and management

Priyadarshi Pany, the company's founder and director has over 25 years of experience in the engineering and IT industry. He is a member of NASSCOM Council, Confederation of Indian Industry (CII) and other industry bodies. He is one of the founding members of Confederation of Information Technology Enterprises (CITE) Bhubaneswar. Priyadarshi Pany is supported by his mother Sushama Pany (mother of Pany), who is another director of the company and brings over 25 years of experience in managing the operations of the company.

Under them, the company has delivered ICT solutions like Development of Integrated Mines and Minerals Management System in Odisha, Jharkhand & Chhattisgarh, land management systems in Maharashtra and digitalized tea auction trade in Kenya. Additionally, they are backed by a team of experienced and qualified professionals.

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

Association with reputed clientele across various end-user markets but has client concentration risk
The customer profile includes government organizations and reputed corporate clients. Top three customers contributed around 73% of the total net sales in FY23, thereby making it susceptible to client concentration risk. However, comfort is drawn from the fact that the company has long and established relations with its clients and has been able to get repeat orders from them over the years.

Satisfactory order book position
CSM has an outstanding order book of ₹188.38 crore and order book of 1.22x as on January 09, 2024. More than 70% of orders are from government organizations and recurring in nature. Majority of current order book is derived from India which exposes the company to economic and regulatory risk of the nation. However, the company has set up subsidiaries in Kenya, Rwanda, USA, Canada and UAE to cater to export markets across Africa, US, Europe, among others to diversify its order book going ahead.

Satisfactory profitability margin
The company achieved PBILDT margin of 15.94% in FY23 which improved by 114 bps as against 14.80% in FY21.
PBILDT margins remained stable and satisfactory between 14-16% over the last few years despite increase in wage cost post-COVID-19 to manage attrition levels. This is due to reduction in project development cost by utilizing Low Code No Code model wherein software code developed for past projects is utilized as a base for development of software code for future projects leading to lower time and cost.
Profit after tax (PAT) margin improved to 10.08% in FY23 as against 7.56% in FY21 due to low reliance on external debt leading to lower interest cost.

Comfortable financial risk profile
Historically, the capital structure of the company remains healthy marked by overall gearing of 0.11x as on March 31, 2023 (0.19x as on March 31, 2021) on account of accretion of profit to reserves. The debt coverage indicators marked by interest coverage remained comfortable and stood at 11.23x in FY23 (13.29x in FY21). Total debt/GCA improved and stood at 0.31x as on March 31, 2023 as against 0.70x as on March 31, 2021. Overall gearing is expected to moderate as on March 31, 2024 due to debt-funded software development centre/office.
The company is constructing a new software development centre/office in G+12 structure in Bhubaneswar which will be constructed in multiple phases. Phase 1 (G+3) is being constructed at total project cost of ₹30 crore funded through term loan of ₹21.50 crore and internal accruals of ₹8.50 crore. Financial closure has already been achieved. Out of total project cost of Phase 1, the company has already incurred ₹15.92 crore as on December 31, 2023 funded through term loan of ₹7.82 crore and remaining ₹8.10 crore through internal accruals. Phase 1 is expected to be complete by December 2024.

Key weaknesses
Moderate scale of operations
Although the scale of operations of CSM witnessed healthy compounded annual growth rate of 26% resulting in total operating income of ₹154.11 crore in FY23 as against ₹61.23 crore in FY19, however the same continues to remain moderate. The growth is primarily driven by execution of higher value orders from current customers and acquisition of new customers.
In 8MFY24, the company earned PBILDT of ₹12.84 crore on total operating income of ₹113.75 crore.

Modest net worth base
Although the company has been in the industry for over 25 years, the net worth base continues to remain modest at ₹49.13 crore as on March 31, 2023. Improvement in net worth remains key rating sensitivity.

Tender-based nature of operations
Majority of the orders are received from government organizations. The contract is tender-based and the revenues are dependent on the CSM's ability to bid successfully for these tenders. The profitability margins of the company may come under pressure because of the competitive nature of the industry. Orders are generally tender driven floated by government units indicating a risk of non-receipt of contract in a competitive industry. However, CSM's promoters' long industry experience in the engineering and IT industry, mitigates this risk to some extent.

Foreign exchange fluctuation risk and exposure to changes in government regulations

The company's exchange risk arises from its foreign currency revenues (primarily in U.S. Dollars), however significant portion of the company's revenue is in Indian Rupee. CSM derived about 4-5% of its revenues in foreign currency, while a major portion of its corresponding costs are in Indian Rupee. The company remains exposed to foreign currency fluctuation to the extent of expenses of its foreign subsidiaries like employee costs, rentals, maintenance, among others. The company does not hedge its foreign exchange fluctuation risk. Hence, there is a risk of adverse movement in foreign exchange and its negative impact on profitability margins of the company.

Intense competition and industry risk

CSM is a relatively moderate-scale player in the IT services industry which is dominated by large multinationals with deep pockets. The industry faces intense competition due to low entry barriers. The IT industry also faces challenge from rapid technological changes, which may lead to obsolescence of certain software/services. The availability and retention of a skilled workforce, attrition levels and wage inflation pose a challenge. The player in this industry is also exposed to macro-economic factors like adverse changes in laws, recession and IT being discretionary spend any cost reduction initiative would result in reduction in IT spends by the clients.

Liquidity: Adequate

Liquidity is marked by cash and bank balance of ₹5.91 crore as on November 30, 2023 as against low repayment obligations of ₹2.01 crore in FY24. In FY23, the company earned GCA of ₹17.92 crore vis-à-vis debt repayment obligation of ₹2.43 crore. The average utilization of fund-based working capital limits of ₹25 crore stood at around 39% for last 12 months ending November 2023. CSM generated net cash flow from operations of around ₹14.60 crore in FY23 aided by efficient and prudent working capital management.

Environment, social, and governance (ESG) risks- Not Applicable

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 Industry
Consolidation

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Information technology	Information technology	IT - Services	IT Enabled services

CSM incorporated in 1998 was established as Cybertech Software & Multimedia Pvt Ltd by Bhubaneswar, Odisha based Priyadarshi Pany (Managing Director). The company got its present name in October 2014. CSM is engaged in the business of providing IT services and solutions, development and implementation of customised applications/software primarily in the field of e-governance. The company also provides consulting and advisory services. It also provides self-serving technologies which enables government organization and corporate clients to migrate, automate and manage customer facing business process to self- service channels.

Consolidated financials

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	8MFY24 (UA)
Total operating income	90.45	154.11	113.75
PBILDT	12.85	24.56	12.84
PAT	6.48	15.53	NA
Overall gearing (times)	0.20	0.11	NA
Interest coverage (times)	8.60	11.23	NA

A: Audited, UA: Unaudited Note, NA; Not Available, Note: The above financials are the latest available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd: Not Applicable
Disclosure of Interest of Managing Director & CEO: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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
Fund-based - LT-Term loan		-	-	March 2033	21.50	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	23.50	CARE BBB; Stable / 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 - LT/ ST-Bank guarantee	LT/ST*	23.50	CARE BBB; Stable / CARE A3+				
2	Fund-based - LT-Term loan	LT**	21.50	CARE BBB; Stable				
3	Fund-based - LT-Cash credit	LT**	5.00	CARE BBB; Stable				

*Long term/Short term, **Long term

Annexure-3: Detailed explanation of the covenants of the rated instrument / facilities- Not Applicable
Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - LT/ ST-Bank guarantee	Simple

Annexure 5: Lender details
To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated.

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	CSM Technologies DWC LLC	Full	wholly owned subsidiary of CSM
2	CSM Technologies INC	Full	wholly owned subsidiary of CSM
3	CSM Tech Limited	Full	wholly owned subsidiary of CSM
4	CSM Tech Corp	Full	wholly owned subsidiary of CSM
5	CSM Technologies Africa Limited	Full	wholly owned subsidiary of CSM Technologies DWC LLC

Note on the complexity levels of the rated instrument: 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.

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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.

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