Earth Syscom Private Limited

March 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	50.00	CARE BB; Stable; ISSUER NOT COOPERATING*	Revised from CARE BB+; Stable and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1

Rationale & key rating drivers

CARE Ratings Ltd. has been seeking information from Earth Syscom Private Limited to monitor the rating(s) vide e-mail communications/letters dated February 13, 2024, February 26, 2024, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Earth Syscom Private Limited's bank facilities will now be denoted as **CARE BB; Stable; ISSUER NOT COOPERATING***.
Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised on account of increase in debt during FY23 leading to deterioration in capital structure. The rating is constrained by the company's low operating margins, leveraged capital structure and below average debt coverage indicators, moderately working capital intensive nature of operation, presence in competitive and fragmented IT industry and risk of technological obsolescence. The ratings derive comfort from experienced promoters with established track record of operations and growth in scale of operations albeit at moderate levels

Analytical approach: Standalone

Outlook: Stable

ESPL is expected to benefit backed by stable financial risk profile.

Detailed description of the key rating drivers

At the time of last rating on April 24, 2023, the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies).

Key weaknesses

Low operating margins owing to trading nature of business and intense competition

The operating profitability margins are low during past three years ending March 31, 2023 owing to trading and distribution nature of business. The PBILDT margin of ESPL has improved marginally to 1.88% in FY23 from 1.70% in FY22. Further, the PAT margin remained below unity at 0.50% in FY23 vis-à-vis 0.75% in FY22. Hence, as a result of lower operating margins, the cash accruals have been thin at Rs. 3.23 crore in FY23.

Leveraged capital structure and below average debt coverage indicators

The overall gearing ratio deteriorated at stood highly leveraged at 2.31x as on Mar 31, 2023 vis-à-vis 1.62x as on Mar 31, 2022. The deterioration in the gearing ratio is on account of increase in the debt levels given the higher dependence on working capital bank borrowings and channel finance and unsecured loans from promoters along with additional term loan availed to fund the growing business operations.
The debt coverage indicators marked by total debt to GCA stood at elevated levels at 14.00x as on Mar 31, 2023 vis-à-vis 7.36x as on March 31, 2022 owing to increase in debt levels. Interest coverage ratio remained satisfactory however deteriorated from 3.24x in FY22 to 1.94x in FY23 owing to higher interest expense.

Moderately working capital intensive nature of operation albeit lower operating cycle

Operations of the company are moderately working capital intensive mainly on account of funds being largely utilised in receivables and inventory owing to ESPL's lower bargaining power against the reputed customers. Also, it has to offer liberal credit period to retain the customers due to intense competition prevalent in the market.
Collection days increased to 48 days in FY23 from 27 days in FY22. The company does require to provide PBG i.e. performance bank guarantee for tender based business. Creditor days also elongated slightly to 47 days in FY23 vis-à-vis 40 days in FY22. Inventory days remained stable. Led by the same, the operating cycle elongated slightly to 29 days in FY23 vis-à-vis 19 days in FY22. Thus, the average fund-based utilization stood almost full during past twelve months ending February 2024.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications
*Issuer did not cooperate; Based on best available information

Presence in competitive and fragmented IT industry
ESPL operates in a highly competitive industry with many players operating in the field of IT system integration. Furthermore, the competition is increasing as along with small players the medium and large players in the industry are also penetrating the market which further creating the pressure on profit margins and lead to low bargaining power against the reputed customers and elongated collection period.

Risk of technological obsolescence
Technological obsolescence is an inherent risk in any technology related business and also applies to the IT distribution business. The company continues to remain exposed to the risk associated with inventory holding and stock liquidation, which could have an adverse impact on its profitability in the event of the company being unable to achieve timely sale of inventory.

Key strengths

Experienced promoters with established track record of operations
The company ESPL has an established track record of operations for more than two decades. Mr. Haresh Kataria (promoter and director) has more than 25 years of experience in the field of information technology and handles operations with his wife Mrs. Bhanuben Kataria having more than 15 years of experience and further assisted by other family members and a team of professionals. Over the years of presence in the industry, the directors have established strong marketing connects and process excellence. Moreover, the directors are supported by second line of management having relevant experience in the industry to carry out the day-to-day operations of the company.

Growth in scale of operations albeit at moderate levels
ESPL's total operating income (TOI) remained moderate and fluctuating during past five years ending March 31, 2023. The TOI grew by 25.25% in FY23 over FY22 and stood at Rs. 501.25 crore in FY23 vis-à-vis Rs. 400.18 crore in FY22. Nevertheless, the same stood modest.

Liquidity: Stretched

The liquidity position is stretched characterized by moderate accruals and low cash balance of Rs. 1.33 crore as on March 31, 2023. The average fund-based utilisation stood almost full during last 12 months ended February 2023. The cash flow from operations remained negative at Rs. 9.64 crore in FY23 vis-à-vis negative cash flow from operation at Rs. 4.33 crore in FY22. The current ratio and quick ratio stood low at 1.04 times and 0.75 times as on March 31, 2023 (vis-à-vis 1.05 times and 0.57 times as on March 31, 2022).

Applicable criteria

Policy in respect of Non-cooperation by issuer
Policy on default recognition
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Financial ratios - Non-Financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Methodology – Wholesale Trading

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Consumer Electronics

Established in 2004, Earth Syscom Private Limited is a private limited company engaged in trading and distribution of printers, laptops, desktops, processors, and other such products of various brands viz. Dell, Intel, Asus, Epson, Gigabyte, Hp, LG, Samsung, etc. with the trading and distribution business constituting 65% of total revenue contribution. Further, the company is also a services and solution provider of surveillance products like camera, CCTV, recorder and others on a project basis (with project tenure of 1 to 2 years) and also bids in government tenders by participating in tenders floated by Gujarat Informatics Limited, which is a government platform where ESPL bids and fetches tenders like Sarva Shikshan Abhiyaan, Department of Education, Bihar and the surveillance product business and government tender business. The company derives remaining 35% of the revenues from services and solution provider of surveillance products like camera, CCTV etc. ESPL procures the products from various National Distributors (NDs) based in and outside of Mumbai.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	263.82	400.18	501.25
PBILDT	4.20	6.82	9.45
PAT	1.83	3.02	2.53
Overall gearing (times)	1.46	1.62	2.31
Interest coverage (times)	3.65	3.24	1.94

A: Audited; Prov.: Provisional; NA: Not Available; Note: 'the above results are latest financial results 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: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

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

Covenants of the rated instruments/facilities: Not Applicable

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	-	-	-	-	21.00	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Proposed fund based limits	-	-	-	-	29.00	CARE BB; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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	Fund-based - LT-Cash Credit	LT	21.00	CARE BB; Stable; ISSUER NOT COOPERATING*	1)CARE BB+; Stable (24-Apr-23)	-	-	-
2	Fund-based - LT-Proposed fund based limits	LT	29.00	CARE BB; Stable; ISSUER NOT COOPERATING*	1)CARE BB+; Stable (24-Apr-23)	-	-	-

*Issuer did not cooperate; based on best available information.
LT: Long term

Annexure-3: Detailed explanation of the 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	Fund-based - LT-Proposed fund based limits	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:
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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