

## Inspirisys Solutions Limited

August 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	5.00	CARE BBB; Stable	Reaffirmed
Long Term / Short-term bank facilities	25.00	CARE BBB; Stable / CARE A3+	Reaffirmed
Short-term bank facilities	2.60	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of Inspirisys Solutions Limited (ISL) considers improvement in the scale of operations in FY24 and the company's healthy liquidity profile marked by a comfortable free cash balance and minimal utilisation of working capital limits. Ratings are constrained by the exposure to subsidiaries, which have been a drag on ISL's overall financial risk profile. However, comfort is drawn from the support of its parent – CAC Holdings Corporation (CAC), Japan. The competitive IT industry, which limits pricing flexibility amid rising costs and wage inflation, constrain the rating.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improving profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 15%.
- Improving average collection to about three months.

#### Negative factors

- Withdrawal in support extended by parent, CAC.
- Increasing investment or exposure to loss-making subsidiaries with gearing adjusting for exposure to subsidiaries exceeding 1.5x.

### Analytical approach: Standalone

### Outlook: Stable

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

### Detailed description of key rating drivers:

#### Key strengths

#### Integrated business segment and strong relationship with established track record

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 centres and over 100 direct service locations. ISL established strong relationships with technology vendors and customers.

#### Continuous improvement in scale of operations despite increased concentration risk

ISL's total operating income (TOI) grew by 34% in FY24 compared to 19% growth achieved in FY23 driven by the execution of large value orders and acquisition of new clients. While ISL's clientele is diversified across industries, revenue concentration from BFSI surged to 68% in FY24 (PY: 48%) with improved order from BFSI division. However, established and reputed client base and the company's long track record largely mitigate the industry concentration risk.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Comfortable leverage position and debt coverage indicators

With improved accretion, the company's overall gearing improved to 0.44x as on March 31, 2024 (PY: 0.55x). The company does not have term debt, aside from minimal vehicle loans. With a cash bank balance of ₹45.59 crore as on March 31, 2024, net debt position remained negative. Debt coverage indicators also stood comfortable with interest coverage of 5.10x and total debt (TD)/PBILDT of 1.18x in FY24.

### Key weaknesses

#### Exposure to loss making subsidiaries largely mitigated by Parentage

ISL has long standing receivables from Inspirisys Solutions North America Inc. (ISNA) of ₹40.49 crore is not yet recognised provision for this receivable as they are exploring options to turn around the business and to realise dues. However, group's overdue receivable position is largely mitigated by the unsecured loan from the parent company CAC. CAC, Tokyo-based IT service provider, holds 69.95% stake in ISL. CAC also infused unsecured loan of ₹14.35 crore directly to ISNA to support the US operation. Unsecured loan extended by CAC at consolidated level stood at ₹84.10 crore as on March 31, 2024 (PY: ₹69.72 crore).

### Highly competitive IT industry

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 company's pricing flexibility, limiting ISL's 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.

### Industry prospects

Indian IT hardware's market size is estimated at US\$ 19.77 billion in 2024, and is expected to reach US\$ 27.86 billion by 2029, growing at a compound annual growth rate (CAGR) of 7.10% during 2024-2029. Public sector's increasing digitisation is a significant driver for the IT hardware market. Local governments recognised benefits of digital technologies and are implementing initiatives to enhance their service delivery, improve efficiency, and provide better citizen-centric solutions. Hardware for servers and data centres is in greater demand as companies strive to improve their digital capabilities.

### Liquidity: Adequate

ISL generated gross cash accrual (GCA) worth ₹26.18 crore and maintained cash bank balance of ₹45.59 crore as on March 31, 2024. The company does not have major term loan repayment commitments except few vehicle loan repayments worth ₹0.17 crore in FY25. Average working capital cycle improved in FY24 to 62 days (PY:75 days). Excluding group receivables and adjusting for contract assets, working capital cycle would stand further improved at 41 days in FY24 (PY:46 days). Fund based working capital limit utilisation remained moderate (~3.21%) for the 12-months ended June 2024.

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Service Sector Companies](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Information technology	Information technology	IT - Services	IT enabled services

ISL, incorporated in 1995, headquartered in Chennai, is engaged in providing IT and IT Enabled Services (ITES). The company offers its product offerings under three segments, 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 customers and warranty solutions for imported and indigenous equipment where OEMs do not have geographical

presence in India. In January 2014, CAC acquired 51% stake in ISL through share purchase from promoters and open offer and currently holds 69.95% of ISL's shares.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	298.87	356.89	478.36
PBILDT	15.95	32.43	37.21
PAT	0.29	17.96	21.60
Overall gearing (times)	0.95	0.55	0.44
Interest coverage (times)	2.90	4.99	5.10

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 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 2024-2025	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
1	Non-fund-based - ST-BG/LC	ST	2.60	CARE A3+	-	1)CARE A3+ (06-Oct-23)	1)CARE A3 (07-Oct-22)	1)CARE A3 (16-Nov-21)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	25.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (06-Oct-23)	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 (06-Oct-23)	1)CARE BBB-; Stable (07-Oct-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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### About us:

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### Disclaimer:

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