Impetus Technologies India Private Limited

September 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10.94 (Reduced from 19.55)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	61.50	CARE A; Stable/CARE A1 (Single A; Outlook: Stable/A One)	Reaffirmed
Total bank facilities	**72.44 (₹ Seventy-two crore and forty-four lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Impetus Technologies India Private Limited (ITIPL) continue to derive strength from the vast experience of its promoters and its established track record of operations in information technology (IT) consulting, application development and maintenance (ADM) services supported by its strong talent pool of employees. The ratings also factor its low gearing, strong debt coverage indicators, strong liquidity and healthy profitability, which moderated in FY22 (refers to the period from April 1 to March 31).

The ratings, however, continue to remain constrained by its moderate scale of operations, elongated operating cycle, geographical and domain concentration of its revenue, which exposes it to any adverse economic conditions and government policies in the end-user market, vulnerability of its profitability to foreign exchange fluctuation and intense competition in the IT services industry.

Rating sensitivities

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

- Significant growth in the scale of operations with greater geographical and domain diversification of revenue resulting in the total operating income (TOI) of over ₹500 crore while maintaining a healthy PBILDT margin of over 25% through improvement in its PBILDT per employee on a sustained basis.
- Improvement in the collection period to below 75 days on a sustained basis along with maintaining its healthy liquidity.
- Improvement in its total debt/PBILDT to below 0.25x on a sustained basis.

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

- Deterioration in the capital structure with overall gearing of more than 0.80x.
- Significant decline in TOI to below ₹200 crore or PBILDT margin below 18% on a sustained basis.
- Elongation of the collection period above 150 days on a sustained basis, arising from higher support extended to its sole customer/parent.
- Any significant moderation in its hitherto healthy liquidity.
- Any major predominantly debt-funded capital expenditure/acquisition adversely affecting its leverage and debt coverage indicators.

Detailed description of the key rating drivers

Key rating strengths

Qualified and experienced promoters:

ITIPL is promoted by Praveen Kankariya along with his family members, Prakash Chand Kankariya and Ritu Bapna. Praveen Kankariya, CEO, is a technocrat and Bachelor in Engineering and Masters in Science by qualification. He possesses more than two decades of experience in the IT industry. Praveen Kankariya is assisted in the operations by his wife, Ritu Bapna, who also possesses rich experience of the IT industry. However, apart from the promoters, ITIPL has established organisational structure headed by qualified second-tier management team from diverse fields. Sanjeev Agrawal, Vice President- Operations & Human Empowerment, is associated with the company since its inception and is responsible for leading, integrating, and leveraging the human empowerment, finance, and infrastructure development at ITIPL.

Established operation in IT and ITeS industry:

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

ITIPL has established operations in IT-enabled (ITeS) service industry. ITIPL operates as an offshore delivery center for its USA-based parent, ITI, which is engaged in sourcing and servicing the clients in the area of data warehousing and big data analysis. ITI is based in USA and catering to the reputed clientele including Fortune 500 companies with major focus on Banking, Financial Services and Insurance (BFSI), Telecom and Airline sectors. Over the years, ITI has gradually added new clientele in its portfolio and formed established relationship with existing clients owing to which the company gets repeat business. ITI had also focused on data integration across various formats/data warehoused in last two years and has developed various products, including Transility, IDW, Stream Analytics and leaplogic among others.
ITIPL has consistently added new operational and infrastructure space and has developed various cloud-based products and services to cater evolving technological landscape and customer base at its parent, i.e., ITI. ITIPL has operational floor area of 217,621 sq. ft. spread over total 11 offices as on March 31, 2022 (Noida, Bengaluru, Gurgaon and one unit Indore is located at SEZ). With the ongoing 'work-from-home' culture, there has not been any new addition in the floor area in last two years despite addition in the employee base, and the need for office spaces has been reduced to a certain extent.

Comfortable capital structure, strong debt coverage indicators and healthy profitability which moderated in FY22:
ITIPL has healthy profitability; however, the same had moderated in FY22 marked by PBILDT margin of 18.44% during FY22 as compared with 22.50% during FY21. The PBILDT margin of ITIPL also depends upon the various expenditure (employee as well as software development expenses) capitalised by the company. The PBILDT margin moderate by 406 bps during FY22 on y-o-y basis as employee cost increased with significant increase in employee base. The profit after tax (PAT), however, grew from ₹40.57 crore during FY21 to ₹56.76 crore during FY22 with healthy PAT margin of 13.39% during FY22 (FY21: 13.69%). Overall gross cash accruals (GCA) also grew from ₹69.14 crore during FY21 to ₹85.25 crore during FY22. Going forward, with better utilisation increased manpower, the PBILDT margin are expected to increase and remain in the range of 20%-23%.
The capital structure of ITIPL remained comfortable marked by overall gearing of 0.16x as on March 31, 2022. The total debt also includes lease liability of ₹20.00 crore as on March 31, 2022 (₹10.73 crore as on March 31, 2021). ITIPL has comfortable capital base marked by tangible net worth of ₹415.94 crore as on March 31, 2022 on the back of heathy accretion of profit to net-worth base. With strong cash accruals and declining debt levels, overall debt coverage indicators of the company remained comfortable during FY22 on y-o-y basis. Furthermore, it has healthy cash and bank balance of ₹163.68 crore as on March 31, 2022 (₹138.79 crore as on March 31, 2021) resulting in rich liquidity and net debt free operation for last five years ended as on March 31, 2022. Going forward, capital structure and debt coverage indicators are expected to remain comfortable with healthy cash accruals and nil net debt level.

Strong talent pool of employees with high operating efficiency:
ITIPL has a strong talent pool comprising engineers and MBAs having experience in coding, programming, IT consulting, etc., with relevant experience of various industries, tools/platforms and project management methodologies. Over the years, ITIPL continuously invested towards employee training which is likely to accrue benefits for the company going forward. The total employee strength of ITIPL had increased from 1,400 as on March 31, 2021 to 2,249 as on March 31, 2022, and is expected to add another 400-500 employees by end of March 2023
Furthermore, the employee performance parameters like revenue per employee and PBILDT per employee remained largely stable during last four years ended FY21, which however, declined in FY22 to ₹18.86 lakh and ₹3.47 lakh, respectively (as against ₹21.46 lakh and ₹5.42 lakh in FY21), which was due to mass recruiting in FY22, i.e., growth in the number of employees and total employee cost, whose benefit is expected to accrue in the next couple of years.

Key rating weaknesses
Growth in scale of operations albeit remained at moderate level:
The TOI of ITIPL grew by 43.05% from ₹296.34 crore during FY21 to ₹423.91 crore during FY22 with increase in the revenue from existing customers at parent level. Furthermore, in Q1FY23, the company has already achieved revenue of around ₹157 crore as against around ₹85 crore in Q1FY22. Despite growth in the TOI, ITIPL continues to have moderate scale of operation with its presence in the competitive IT/ITeS industry. Furthermore, ITIPL's scale of operations is significantly smaller compared with many large players in the IT sector.

Elongated operating cycle:
The operating cycle of ITIPL had improved to 111 days during FY22 as compared with 143 days during FY21 with increase in the revenue and averaging impact, however, remained elongated. The overall receivables had increased from ₹102.26 crore as on March 31, 2021 to ₹168.43 crore as on March 31, 2022, but remain equivalent to 4-month sales. The company management has articulated that the average receivables period is expected to be in the range of 110-130 days going forward. Large part of ITIPL's receivables are from its parent ITI. Consequently, any adverse impact on the credit profile of ITI will have an adverse impact on ITIPL and remained key rating sensitivity.

Revenue concentration to specific domains and geographies:
ITIPL has concentrated revenue base as it is back-end services provider for ITI (US-based parent company). ITTPL derives majority of its revenue from export of its services (98% of ITIPL's revenue during FY22) to ITI, whereas domestic sales remained minimal. ITI has a diversified customer base in the USA market in the area of BFSI, Airline, Telecom among other sectors. However, any adverse regulatory and technological changes in those industries and geographies may adversely impact the revenue profile of ITIPL. As articulated by the management, ITI is actively looking to expand its business in the European and North American market.

Presence in industry characterised by growing competition from IT majors:
The growing competition in the industry exposes the ITIPL to typical industry risks such as ability to bag large-sized contracts and attrition of skilled personnel, which may result in lower growth rates. The moderate scale of operations also restricts financial flexibility to an extent, a distinct advantage enjoyed by its peers, who are established global majors. Furthermore, the moderate scale restricts bargaining power with large clients as well as makes it vulnerable to increasing competition. Furthermore, the company remains exposed to industry wide risks of high attrition rates, wage inflation and regulatory framework for tax incentives which can also put pressure on the margins. IT being discretionary spend, any cost-reduction initiative would result in reduction in IT spends by the clients, and the same will impact the growth prospects of the company.

Vulnerability to foreign exchange rate movements; largely mitigated on account of a formal hedging policy:
ITIPL is engaged in the export of services to its parent company, ITI, which exposes its profitability to foreign exchange fluctuation risk, as evident from net forex gain on foreign currency translation and transactions by the company over many years. However, the company has a formal hedging policy owing to which it hedges its entire foreign receivables; thus, mitigating the above risks effectively.

Liquidity: Strong
ITIPL has strong liquidity marked by low repayment obligations against healthy cash accruals, healthy cash and bank balance and healthy liquidity ratio marked by current ratio and quick ratio of 3.64x as on March 31, 2022. Cash and bank balance also remained healthy at ₹163.68 crore as on March 31, 2022 (including lien marked FD of ₹23 crore) as against ₹138.19 (including lien marked FD of ₹23 crore). Cash flow from operations, despite growth in the scale of operation, decreased from ₹116.57 crore during FY21 to negative ₹16.75 crore in FY22 due to increase in the receivables and loans given to the employees.
ITIPL avails fund-based working capital limits of ₹42 crore, which it uses for bill discounting purpose. The average fund-based working capital facilities (EPC/PSC) utilisation remained at 69.56% for past 12 months ended July 31, 2022.

Analytical approach: Standalones
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
ITIPL (erstwhile Impetus Infotech (India) Private Limited) (CIN: U72100MP2000PTC014455) is an Indore-based off-shore delivery centre for its USA-based parent, ITI. ITIPL, which was promoted by Indian-origin USA-based first-generation entrepreneur, Praveen Kankariya, Chief Executive Officer (CEO), is a backend hub for application development and maintenance (ADM) and Information Technology (IT) consulting services. ITIPL currently employs around 2,700 employees at its 11 business units located in Indore (five), Noida (three), Gurugram (two) and Bengaluru (two).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Prov.)	June 30, 2022 (Prov.)
Total operating income	297.84	423.91	157.66
PBILDT	68.17	78.15	NA
PAT	42.07	56.76	NA
Overall gearing (times)	0.08	0.15	NA
Interest coverage (times)	13.89	17.61	NA

A: Audited; Prov.: Provisional; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	30/04/2024	10.94	CARE A; Stable
Fund-based - LT/ ST-EPC/PSC	-	-	-	-	42.00	CARE A; Stable / CARE A1
Non-fund-based - LT/ ST-Derivative limits	-	-	-	-	19.50	CARE A; Stable / CARE A1

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	10.94	CARE A; Stable	-	1)CARE A; Stable (22-Sep-21) 2)CARE A; Negative (06-Apr-21)	-	1)CARE A; Negative (26-Mar-20)
2	Fund-based - LT/ ST-EPC/PSC	LT/ST*	42.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (22-Sep-21) 2)CARE A; Negative / CARE A1 (06-Apr-21)	-	1)CARE A; Negative / CARE A1 (26-Mar-20)
3	Non-fund-based - LT/ ST-Derivative limits	LT/ST*	19.50	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (22-Sep-21) 2)CARE A; Negative / CARE A1 (06-Apr-21)	-	1)CARE A; Negative / CARE A1 (26-Mar-20)

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-EPC/PSC	Simple
3	Non-fund-based - LT/ ST-Derivative Limits	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 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.

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About us:

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