Intec Infonet Private Limited

January 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	40.00	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	112.00	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Intec Infonet Private Limited (IIPL) derives strength from its experienced promoters with established track record of operations, long- term association with reputed clientele and comfortable capital structure marked by low long-term debt. The ratings also take cognizance of the healthy unexecuted orders in hand amounting to Rs. 692.23 crores providing revenue growth visibility over medium term.

These rating strengths are, however partially offset by the exposure of IIPL towards risk associated with rapid technology advancement and fragmented and competitive nature of IT industry. The ratings are also constrained by the declining scale of operations since past 3 years and working capital intensive operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations above Rs. 200 crores with sustained PBILDT margins above 8%.
- Improvement in TD/GCA below 2.50 times on a sustained basis.
- Improvement in collection period below 150 days leading to improved liquidity position on a sustained basis.
- Steady flow of orders and timely execution of orders in hand thereby improving revenue visibility on a sustained basis.

Negative factors

- Decline in scale of operations from existing level and PBILDT margins below 6% on a sustained basis.
- Any significant decline in order book and scale of operations from current levels owing to continued issue of shortage of semiconductor chip used in networking devices.
- Elongation in collection period beyond 250 days leading to deterioration in operating cycle adversely impacting liquidity profile of the company.

Analytical approach: Standalone

Key strengths

Experienced promoters with established track record of operations

IIPL has an established track record of operations for more than 3 decades. Mr. Rajeev Goel (promoter and director) has more than 25 years of experience in the field of information technology and handles operations with his wife Mrs. Mridula Goel having more than 15 years of experience and further assisted by a team of well-equipped professionals.

Long- term association with reputed clientele

The company is associated as a partner with various leading IT companies like CISCO who provides the leads of customer's requirements and accordingly prices of hardware/software provided by OEMs like CISCO is finalised and then the company participates in tenders floated by various govt entities. IIPL has long term association and satisfactory track record of more than a decade with reputed govt. customers.

Healthy order book position providing revenue visibility albeit exposed to concentration risk

The company receives orders from the clients through tenders, empanelment and repeat orders. As on December 31 2022, IIPL has unexecuted order book of Rs. 692.23 crore which is equivalent to 10.02 times of total operating income reported during FY22 thereby providing healthy revenue visibility over medium term. The said orders are to be executed over a period of 2 to 2.5 years extending upto October 2025. However, timely execution and billing of orders in hand along with steady flow of orders shall be a key rating monitorable going forward. The order book is however< highly concentrated with single customer constituting around 59.58% of total order value.

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

Comfortable capital structure albeit moderate debt coverage indicators

The company has comfortable capital structure marked with low long-term debt and comfortable overall gearing of 0.24 times as on March 31, 2022 improved from 0.75 times as on March 31, 2019 and TOL/TNW of 0.91 times as on March 31, 2022 significantly improved from 2.46 times as on March 31, 2019 as WC utilization reduced significantly from Rs. 26.11 crore as on March 31, 2022 to Rs. 5.72 crore as on March 31, 2022. The debt coverage indicators reflect moderation, marked by TD/GCA at 4.28 times as on March 31, 2022 compared to 4.43 times as on March 31, 2019 and interest coverage of 1.33 times in FY22 moderated from 2.20 times in FY19 mainly due to significant decline in scale of operations over past 2 years. The company also has interest free unsecured loans from its directors amounting to Rs. 2.71 crore as on March 31, 2022 which shall be maintained in system going forward also. Further, the company has no plans to undertake any debt funded capex in near future apart from regular routine capital expenditure.

Key weaknesses

Exposure towards rapid technology advancement in IT industry

IIPL being a part of IT industry is subject to frequent changes/updates in systems and software due to new technology being launched in short span of time. To cope with the rapidly changing technologies, IIPL is required to continuously give training to its employees in order to skill up and develop updated systems and to sustain intense competition from peer entities. Any prolonged gap in upgradation may adversely impact the business prospects and profitability margins of the company, however experienced promoters with long track record of operations and long-term association with the customers provide edge to the company.

Fragmented and competitive nature of IT industry

The company is engaged in providing services as a network integrator which includes supply of hardware i.e. networking equipment like Router, Switches, firewall & surveillance products and services like warranty services, AMC and installation etc. The operations of the company remain exposed towards intensive competition in the industry due to presence of large number of players and limited entry barriers, however due to various eligibility qualifiers while participating in tenders, quality of services and past experience of the company provides an edge to IIPL over other small players.

Decline in scale of operations over past 3 years; albeit improvement expected from FY23 onwards

On account of Covid-19, the company did not receive new orders and new requirements due to which supply of networking products and installation revenue impacted and further due to elongated procurement period due to chip shortage also caused low booking of revenue. IIPL reported degrowth from Rs. 169.88 crores in FY19 to Rs. 69.08 crores in FY22. Despite declining turnover, IIPL has reported steady PBILDT margins in the range of 6 to 7.5%. Going forward, healthy topline growth is envisaged as new projects are being awarded and demand is revived post covid. The company has achieved top line of Rs.65.49 crore in H1FY23 (refers to period April 01 to September 30) with PBILDT margin of 7.63%.

Working capital intensive operations due to elongated collection and payment period

Operations of the company are working capital intensive due to elongated collection period and milestones- based payment (on supply, installation and commissioning etc.). Operating cycle of the company stood at 408 days as on March 31, 2022 (FY21: 286 days) compared to 112 days as on March 31, 2019 due to extended collection period of 472 days as on March 31, 2022 (FY21: 382 days) compared to 141 days as on March 31, 2019 mainly due to lower turnover base and averaging effect. Creditors payment days stood at 100 days as on March 31, 2022, increased from 59 days as on March 31, 2019 due to averaging effect and reduced scale of operations, moreover company partially reduced level of creditors out of debtors realization in FY22.

Liquidity: Adequate

Liquidity is marked by expected accruals of Rs. 10.76 crores against repayment obligations of close to Rs. 3.40 crore in FY23 and further aided by cash and cash equivalents of Rs. 3.88 crore as on November 30, 2022. With a gearing of 0.24 times as of March 31, 2022, the company has sufficient gearing headroom, to raise additional debt for future exigencies, if any. Its unutilized bank lines of ~66% equivalent to around Rs. 5.23 crore as on October 31, 2022 are adequate to meet its incremental working capital needs over the near term.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Service Sector Companies

About the company

Intec Infonet Private Limited started in year 1991 is a "Network System Integrator" which includes planning, design, implementation, maintenance and optimization of converged networks including IT infrastructure (formerly known as Intec Automation Private Limited)

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)	9MFY23 (UA)
Total operating income	101.39	69.08	65.49	93.24
PBILDT	7.09	4.28	5.00	7.44
PAT	3.87	2.70	2.84	Not Available
Overall gearing (times)	0.50	0.24	0.18	
Interest coverage (times)	1.74	1.33	3.62	

A: Audited, UA: Unaudited

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 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	-	-	-	-	40.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	112.00	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 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-Cash Credit	LT	40.00	CARE BBB-; Stable	-	-	-	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	112.00	CARE BBB-; Stable / CARE A3	-	-	-	-

*Long term/Short 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	Non-fund-based - LT/ ST-Bank Guarantee	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

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Puneet Kansal
Phone: +91-11-45333225
E-mail: puneet.kansal@careedge.in

Relationship contact
Name: Dinesh Sharma
Phone: +91-11-4533 3200
E-mail: dinesh.sharma@careedge.in

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