

3i Infotech Limited

September 29, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	61.91 (Reduced from 237.52)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned
Total Facilities	61.91 (Rs. Sixty-One Crore and Ninety-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has removed its ratings on the various bank facilities of 3i Infotech Limited (3i Infotech) from 'Credit Watch with Developing Implications' and has reaffirmed the rating at 'CARE BBB-' with a 'Stable' outlook.

Following the announcement by the company regarding the proposed sale of Software Product business to Azentio Software, CARE had placed the credit ratings of 3i Infotech Ltd. on "credit watch with developing implications" on January 07, 2021. The company completed the sale transaction by March 31, 2021. The proceeds from the sales were utilized to repay the debt from various lenders. The company has also redeemed the Preference shares during Q1FY22.

The software products business accounted for around 40% of 3i Infotech's revenues and had higher operating margin as compared to the Service division. Post the sale of the software division, though the revenues and operating profits have reduced significantly, the company has adequate liquidity buffer in the form of cash balance of over Rs. 100 crores. Significantly reduced interest cost is expected to improve the net profit.

The rating continues to derive strength from established position of the company in service business, diversified client profile and strong liquidity position of the company.

The ratings continue to remain tempered by mid-size scale of operations in a highly competitive industry dominated by big domestic and global players, low profitability margins and high attrition among the workforces.

Rating Sensitivities

Positive Rating Sensitivities

- Improvement in scale up operations to over Rs. 800 crores by addition of new clients or service offerings
- Improvement and sustenance of Operating profitability margins at over 10%

Negative Rating Sensitivities:

- Significant deterioration in sales to below Rs. 500 crore and reduction in profitability to below 4% on sustained basis
- Increase in overall gearing to 0.5x and above

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in financial risk profile

The company utilised the proceeds from the sale of its software product division, to repay the entire debt as well as redeem the preference share. For the repayment of Foreign Currency Convertible Bonds (FCCB), the entire amount has been deposited in an escrow account awaiting the RBI approval. The repayment of debt has led to improvement in financial risk profile of the company and the company has surplus cash of over Rs. 100 cr. as liquidity buffer.

Diversified client profile

The Services segment, provides consulting services, business optimisation services and an extensive expertise in mobility, data analytics, testing and application development. Owing to its presence across the globe the company is able to serve its clients by offering various services. The clients are spread across banking, finance and insurance sectors mainly. A majority of the company's revenue is export based. Further the company also provides the services of BPO, staffing along with IT infra management and software services leading to a diversification in the product mix.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Key Rating Weaknesses

Mid-size operation in an industry subject to competition from large players & high attrition among workforce

The industry in which 3i infotech operates is dominated by very large domestic and multinational players, compared to which 3i infotech's scale of operations is much smaller as it's a mid-size player. 3i faces intense competition from these players which constrains its revenue and profitability. Further, the skilled human resources form an integral part of the organisations such as 3i. Ability to retain quality talent continues to be a challenge in the IT industry.

Low operating margins

The service division is a low margin business with PBILDT margin of around 5-6%. As the company competes with some of the larger players in the industry, there will be pressure on profitability margins of the company going ahead.

Industry Prospects:

Although global technology spending declined 3.2% in 2020, the Indian IT sector grew through the COVID-19 pandemic, driven by industry's digital transformation and technology adoption, according to NASSCOM's annual strategic report. The Indian IT industry is expected to continue "strong recovery" in 2021-22 with a revenue growth of up to 11 per cent. The recovery will be led by increasing outsourcing and accelerating digital transformation services mainly in sectors such as banking, financial services and insurance (BFSI), healthcare, retail and manufacturing. Higher business levels, and more profitable digital deals will also help IT services players maintain healthy operating margins. With customers focussing on optimising costs, outsourcing of IT services is seeing a steady rise globally. The pandemic has opened up additional opportunities in digital services due to surge in remote working, e-commerce and automated services. Despite stronger revenue growth, profitability is unlikely to rise beyond the levels witnessed in 2020-21. Operating margins expanded 2 percentage points to a seven-year high of 25 per cent in the last fiscal year mainly due to cost savings from lower travel, favourable onshore-offshore mix and lower attrition levels.

Liquidity: Adequate

Liquidity remains adequate with unencumbered cash balance of more than Rs 100 crore as on end of August 2021. The company does not have any term loan and working capital limits. Cash accruals is expected to be in the range of Rs. 20-25 crore in FY22 and FY23. The working capital is expected to be funded from cash accruals and cash balance.

Analytical approach: CARE has taken a consolidated view of 3i Infotech Limited and its subsidiaries as per list enclosed in Annexure-6

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology - Service Sector Companies](#)

About the Company

3i Infotech limited (formerly known as ICICI infotech Limited) was set up in 1993 by the erstwhile ICICI Ltd as a back-office processing company. The company has presence across the globe with delivery centres in over 20 countries across Asia Pacific, Middle East, North America and Western Europe. The company has 4 development centres in India, namely in Vashi (Navi Mumbai), Hyderabad, Chennai and Bengaluru. 3i operates through two business segments viz. Services and Software Products and caters to diversified clientele across multiple geographies. The company sold the Software Products division to Azentio Software on March 31, 2021. The company was listed in BSE in April, 2005.

Brief Financials (Rs. crore)	FY20(Restated)	FY21 (A)
Income from Operations	717.76	634.20
PBILDT	57.11	(9.40)
PAT	(60.88)	257.77
Overall Gearing (times)	NM	1.75
Interest Coverage (times)	1.99	NM

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 24	61.91	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	61.91	CARE BBB-; Stable	-	1)CARE BBB-(CWD) (05-Feb-21) 2)CARE BBB-(CWD) (07-Jan-21)	1)CARE BBB-; Stable (28-Jan-20)	-

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details

[Click here to view Bank Lender Details](#)

Annexure 6: List of subsidiaries

Particulars	%Holding as on March 31, 2021
3i Infotech Consultancy Services Limited	100%
3i Infotech SPO Limited	100%
Professional Access Software Development Private Limited	100%
3i Infotech Middle East) FZ LLC	100%
3i Infotech Software Solutions LLC	100%
3i Infotech Inc	100%
3i Infotech SDN BHD	100%
3i Infotech Thailand Limited	100%
3i Infotech Asia Pacific Pte Limited	100%
3i Infotech Services SDN BHD	100%
3i Infotech UK Limited	100%
Ji Infotech Western Europe) Group Limited	100%
3i Infotech Western Europe Holdings Limited	100%
Rhyme Systems Limited	100%
3i Infotech Saudi Arabia LLC	100%
3i Infotech Holdings Private Limited	100%
Ji Infotech Africa Limited	100%
3i Infotech (South Africa) (Pry) Limited	100%
Elegon Infotech Limited	100%
Locuz Inc.	100%
3i Infotech Cyprus) Limited (formerly known as Black-Barret Holdings Limited)	100%
3i Infotech Netherlands B.V.	100%
3i Infotech Nigeria Limited	100%
3i Infotech (Canada) Inc	100%

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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