Ceinsys Tech Limited
December 31, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	73.77	CARE BBB- (CWD) (Triple B Minus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Short Term Bank Facilities	85.00	CARE A3 (CWD) (A Three) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	**158.77 (Rs. One Hundred Fifty-Eight Crore and Seventy-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ceinsys Tech Limited (CTL) have been placed under credit watch with developing implications following the company's announcement of a proposed acquisition of 100% stake in Allygrow Technologies Private Limited (ATPL), a company specialised in manufacturing engineering services

CARE Ratings notes that the transaction is likely to benefit CTL as it will leverage ATPL's overseas network and expand its geographical presence. However, given the large scale of acquisition compared to that of the net worth of CTL (around 75% of net worth as on September 30, 2021), the successful completion of the transaction and the subsequent integration is critical. CARE is monitoring developments in this regard and the possible impact of the same on the credit profile of the company.

The ratings, however, continue to derive strength from CTL's long track record in execution of engineering consultancy and geographical information services (GIS) related orders in various sectors, experienced management, and a healthy order book position, thereby providing revenue visibility in the medium term. The ratings consider sizeable repayment of high-cost inter-corporate deposits (ICDs) during Q3FY22 (refers to the period from October 1 to December 31).

The rating strengths, however, continue to remain constrained by its modest scale of operations, moderate capital structure and debt coverage indicators, stretched liquidity position and its working capital-intensive nature of operation emanating from its high collection cycle and sizable portion of unbilled revenues. Furthermore, utilization of fund-based limits continues to remain high, thereby leaving limited headroom to meet additional requirement for exigencies amidst the pandemic. The cash flows further remain susceptible to timely realizations from clients, which are mainly government agencies and departments across the major states.

The ratings also take note of the subdued operating performance, as indicated by a moderation in total operating income (TOI) coupled with a reduction in profitability and cash accruals in FY21. The same was mainly due to slower order execution of higher margin orders due to the pandemic.

Rating Sensitivities

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

- Total operating income above Rs.220 crore annually on a sustained basis along with improvement in its PBILDT margin to above 15-18%
- Improvement in its average collection period to less than 175 days
- Improvement in the capital structure and debt coverage indicators with an overall gearing ratio below 0.50x and total debt/gross cash accruals (TDGCA) of below 2x

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

- Quarterly total operating income below Rs.40 crs and PBILDT below Rs.8 crs on a sustained basis
- Net loss in any quarter going forward.
- Any sustained delay in execution of orders in hand
- Sustained average collection levels at 300 days or more leading liquidity stress.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management

CTL is promoted by Mr. Sagar Meghe (Chairman and Director) jointly managed by Mr. Abhay Kimmatkar (MD: Managing Director) and Mr. Rahul Joharapurakar (JMD: Joint Managing Director), who are well qualified and experienced. The MD and JMD are associated with the organization since long and are well versed with the intricacies of the business. Furthermore, the management is supported by a team of professionals and experienced executives who have an experience of over two decades in industry and have been associated with the company since long. The company has a combination of engineers across

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

multiple disciplines with significant experience in various industries, tools/platforms and project management methodologies. Furthermore, Mrs. Renu Challu, Mr.Dhruv Kaji, Dr. Satish Wate and CA Kishore Dewani are the independent directors in the company.

Established track record in execution of orders
CTL has a track record of two decades as a solution provider offering Geographical Information Services (GIS) and Engineering Solutions. CTL specializes in designing, capturing, storing, manipulating, analyzing and manage all types of geographical data. Over the period CTL has diversified into niche domains like energy systems & solution (SCADA-DMS implementation, automated metering infrastructure, IT roll out) and water management services.

Healthy order book position
CTL has been able to maintain effective client relationships resulting in a robust increase in its order book position during the past three years. Major orders are primarily obtained from state governments, municipal bodies and public sector units and a few from corporate entities. The company has an outstanding order book position of around Rs.400 crore as on September 30, 2021 (as compared to order book of around Rs.365 crore as on June 30, 2021). During FY21, the company was able to add orders to the tune of Rs.129.78 crore as compared to Rs.174 crore in FY20. Furthermore, during Q3FY22, the company has added orders of around Rs.40 crore. CTL's order book consists primarily from government agencies (~90% of total orders) and remaining from corporate entities. The company had changed its product/service mix, shifting focus towards consultancy business from survey business, over the past two years.

Key Rating Weaknesses

Decline in operating performance during FY21 due to the impact of Covid-19 and changes in order mix
The total operating income (TOI) of the company registered an Y-o-Y decline of ~7% to Rs.187.41 crore in FY21 (as compared to Rs.201.44 crore in FY20). The decline was primarily driven by a lower revenue from Enterprise Geospatial & Engineering Services (EGES) segment from Rs.176.22 crore in FY20(~89% of total sales) to Rs.161.67 crore in FY21 (~87% of sales in FY20). The PBILDT declined to Rs. 18.3 crore in FY21 as compared to Rs.55.01 crore in FY20. Furthermore, PAT moved in tandem and stood at Rs.2.77 crore in FY21 as compared to Rs.25.08 crore in FY20 as against Rs. 2.74 crore in FY19. The same resulted in lower profitability margins as compared to the previous year.
The restrictions owing to pandemic in India dampened operating activity which had a bearing on the order execution. The same has resulted in a subdued performance during the year.
The significantly low PBILDT base resulted in lower fixed cost absorption (interest + depreciation). Interest cost declined with repayment of higher interest-bearing ICDs and stood at Rs.11.72 crore in FY21 as compared to Rs.17.35 crore in FY20. The cost structure consists majorly of costs pertaining to ancillary third-party software products traded, employee cost and outsourcing expenses. However, profitability margins improved during H1FY22, with traction in order execution during the period.
The ability of the company to execute its higher margin orders and further improve the traction in order execution will remain a monitorable.

Moderate capital structure and debt protection metrics
As on March 31, 2021, the total debt stood at Rs.86.65 crore (as against Rs.97.12 crore as on March 31, 2020). The debt mainly comprised of working capital borrowings (76% of total debt), ICDs (21% of total debt) and term loan (3% of total debt). The overall gearing ratio improved and remained moderate at 0.98x (as against 1.13x as on March 31, 2020) mainly on account of repayment of ICDs and scheduled repayment of term loans. However, with the lower profitability the debt coverage deteriorated with a total debt to gross cash accruals (TDGCA) of 18.51x and PBILDT interest coverage of 1.56x as at the end of FY21 (as against 3.44x and 3.17x respectively in FY20). The debt protection indicators are expected to improve with during the current fiscal with an increase in profitability and cash accruals.
Any un-envisaged increase in the debt levels will be a monitorable.

Liquidity position: Adequate
Liquidity position of CTL is characterized by a moderate cushion in accruals vis-à-vis repayment obligations. Gross cash accrual (GCA) is expected to be in the range of Rs.30 crore - Rs.40 crore as against the repayment obligations between Rs.1 crore – Rs.3 crore. Further, the GCA of H1FY22 stood at around Rs.6 crore as against the repayment obligation of Rs.1.52 crore for FY22.
CTL derives a major proportion of its revenues from government contracts where the credit period varies from 120 days to 150 days. Furthermore, invoices are raised on a milestone bases, thereby creating an unbilled portion of revenue. Average collection period for the year FY21 continues to remain high. However, during Q3FY22, the company has recovered significant amount from the debtor o/s for more than 360 days and the same has been utilized towards making payment of high interest-bearing unsecured loan. The working capital limits stands utilized at around 92% (for last 12 month ended October 21) and provides no significant liquidity backup.
Any sustained deterioration in the collection period, resulting in further liquidity stretch will remain a key rating monitorable.

Industry prospects
The estimated annual budget of government agencies (center and the states) for GIS services is $3 billion on geospatial components of their program. At present, the size of the Indian geospatial industry is of the order of $4 billion, and it is growing annually at the rate of 12–15 per cent, and which may grow to be of the size of $20 billion dollars by 2025

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[Liquidity Analysis of Non-Financial Sector Entities]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Service Sector Companies]
[Financial ratios - Non-Financial sector]

About the Company
CTL (formerly known as ADCC Infocad Ltd; listed on BSE, incorporated in 1998 – CIN: L72300MH1998PLC114790), headquartered at Nagpur, is a solution provider offering Geographical Information Services (GIS) and Engineering Solutions. CTL specializes in designing, capturing, storing, manipulating, analyzing and manage all types of geographical data. Its services include GIS, Remote Sensing, LiDAR (Light Detection and Ranging), Photogrammetry, Energy System and solutions, Engineering Design Services, Surveys and Customized Application Development.
As on March 31, 2021, CTL has one subsidiary ADCC Infocom Private Limited (involved in activities like software engineering, software development, business computing, data communication and networking, image processing and remote sensing etc.) with 100% of shareholding.
The company is in process of acquiring 100% stake in ATPL which is proposed to be funded through cash consideration and equity issuance of CTL. The acquisition process is expected to be completed by Q1FY23.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	201.44	187.41	95.31
PBILDT	55.01	18.30	10.84
PAT	25.08	2.77	3.30
Overall gearing (times)	1.13	0.98	1.06
Interest coverage (times)	3.17	1.56	2.15

A: Audited
**Financials have been classified as per CARE's internal standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	70.50	CARE BBB- (CWD)
Non-fund-based - ST-BG/LC	-	-	-	-	85.00	CARE A3 (CWD)
Fund-based - LT-Term Loan	-	-	-	Feb 2025	1.49*	CARE BBB- (CWD)
Fund-based - LT-Working Capital Demand loan	-	-	-	Mar 2022	1.78*	CARE BBB- (CWD)

**Outstanding as on July 31, 2021*

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	70.50*	CARE BBB- (CWD)	1)CARE BBB-; Negative (28-Sep-21)	1)CARE BBB-; Negative (06-Oct-20)	1)CARE BBB-; Negative (21-Aug-19)	1)CARE BBB-; Negative (31-Oct-18)
2	Non-fund-based - ST-BG/LC	ST	85.00*	CARE A3 (CWD)	1)CARE A3 (28-Sep-21)	1)CARE A3 (06-Oct-20)	1)CARE A3 (21-Aug-19)	1)CARE A3 (31-Oct-18)
3	Fund-based - LT-Term Loan	LT	1.49	CARE BBB- (CWD)	1)CARE BBB-; Negative (28-Sep-21)	1)CARE BBB-; Negative (06-Oct-20)	1)CARE BBB-; Negative (21-Aug-19)	1)CARE BBB-; Negative (31-Oct-18)
4	Fund-based - LT-Working Capital Demand loan	LT	1.78	CARE BBB- (CWD)	1)CARE BBB-; Negative (28-Sep-21)	1)CARE BBB-; Negative (06-Oct-20)	-	-

**Sanctioned Amount*

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Margins on Fund based limits	Margin of 25-35% on all inventory and book debts; debtors cover a period from 180 days to 360 days for government receivables subject to banks instructions; Margin for debtors more than 180 days to 360 days is 50%
ii. Margins on Non-Fund based limits	10% cash margin
B. Non-financial covenants	
I Submission of Annual and Quarterly financial Statements	Two copies of audited balance sheet to be submitted not later than 180 days from the close of a financial year
ii Submission of stock and debtors statement	Monthly stock statements and book debt to be submitted within 20 days of month end. Quarterly financial statements to be submitted within 45 days from the date end of the quarter Annual financial statements - Provisional results within 90 days of financial year end - Audited results within 180 days of financial year end

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Demand loan	Simple
4	Non-fund-based - ST-BG/LC	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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**