

3i Infotech Limited

January 28, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	377.80	CARE BBB -; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total Facilities	377.80 (Rs. Three hundred Seventy Seven crores and Eighty Lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of 3i Infotech limited takes into account the diverse product portfolio of the company with clientele including several large banks and financial institutions globally. Further the company also has a decent order book position giving revenue visibility in the short to medium term. The ratings also take into account the cushion available to the company in terms of cash and bank balance and the ability of the company to fund the working capital requirements out of the same. The ratings are skewed on account of high attrition rate with the company which may have negative implications on its performance, classification of the account as NPA by most of the banks hampering the capacity of the company to raise new funds.

Rating Sensitivities

Positive Factors

- Removal of the NPA status of the company by the lenders
- The ability of the company to grow the scale of operations and ensure the improvement in operating margins
- The ability of the company to retain talented human resources

Negative Factors

- Lower than anticipated free cash and bank reserves hampering the ability of the company to procure new business
- Lower than expected revenue growth and operating margins

Detailed description of the key rating drivers

Key Rating Strengths

Diversified and well established clientele across several geographies

The company has over a period of time set up 23 subsidiaries which act as the marketing arm of the company across the globe while the parent does the execution of the contracts.

Owing to its presence across the globe the company is able to serve its clients by offering various products and services. The clients are spread across banking, finance and insurance sectors mainly.

The company has a strong presence in the products as well as the services segment giving company an edge over its competitors to provide end to end solutions to its clients. 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.

Healthy product portfolio

The company has a healthy product portfolio with a decent spread across the BFSI domain. Further the products of the company are being sold internationally also. This gives them a healthy customer mix. The products of the company are customisable as per the requirements of the customer and this has given them an edge over several market players.

Banks and financial services companies spend around 8% to 10% of their revenue on IT and IT infrastructure. This gives enough scope for the company to expand its market horizons. The products offered by the company find its usage in the BFSI sectors with its key products being as below:

- 1) Amlock – Financial Crime detection and Management Solution
- 2) Kastle – Universal Banking Solution, CBS, Lending, Treasury, Risk
- 3) Premia – Core Insurance Suite (Life, General, Health)
- 4) Orion – Enterprise Resource Planning (Manufacturing, Retail, Distribution)
- 5) Mfund – Investment Management (Front, Mid and Back office).

Further to this the company also has several services that it offers to its clients like Infrastructure management services, business technology consulting, Digital Nexus building, Testing, Data Management, business process management.

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

Key Rating Weaknesses

Average Order Book Position

The company has limited revenue visibility in the medium term.

High attrition rate

The company is into product development and services and implementation. The skilled human resources forms an integral part of the organisation. The attrition rate at the company has remained considerably high but has reduced in the past couple of years. CARE Ratings notes that the high attrition rate is mainly attributed to higher employee turnover in the BPO and infrastructure management services business segment, which skews the attrition rate for the company as a whole.

Average Financial risk profile marked by healthy revenues albeit lower margins:

The revenue of the company has increased from Rs. 998.18 crores in FY18 to Rs. 1121.75 crores in FY19 thus registering a growth of 12.38%. Despite the rise in the revenue the EBITDA has declined in absolute terms owing to change in the policy to recognise the cost involved in product development (Rs. 30 crore in FY19 and Rs. 18 crore in FY18) as a revenue expenditure instead of capital expenditure as was treated in the earlier years. Further notional interest is also being charged in the books at the rate of 10% for the PV of the preference shares. Also the products of the company are owned by them by way of debt funded acquisitions done in the earlier years. The company is into IT software and services business; thus a significant block of its assets are intangible in nature. The net carrying value of Intangible assets as on March 31, 2019 is Rs. 230.32 crores. These intangible assets contribute to the revenue of the company and were acquired from several target companies in the past years between 2001 and 2007.

Liquidity: Stretched

Although the company has a cash and bank balance of Rs.99.33 crores as on September 30, 2019, Rs. 27.04 crores are lien marked as cash margins for Bank Guarantees. The company needs to give bank guarantees to several of its clients to get new contracts and the same has to be taken by the company on 100% cash margin thus affecting its liquidity position.

Care Ratings expects that the company will generate adequate cash in the coming years to fulfill its debt repayment obligations and also fund their working capital requirements.

Analytical approach: Consolidated. Care has taken a consolidated view of 3i Infotech limited and 23 of its subsidiaries.

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Service Sector Companies](#)

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

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

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 centers in over 20 countries across Asia-Pacific, Middle East, North America and Western Europe. The country has 4 development centers in India, namely in Vashi (Mumbai), Hyderabad, Chennai and Bengaluru. The company was listed in the stock exchange in April, 2005. Further the company opted for Corporate Debt Restructuring in March, 2012 but it could not sustain the high debt. Owing to the same the Debt Realignment Scheme was approved in June, 2016 by majority of the lenders.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	998.18	1136.46
PBILDT	162.82	159.12
PAT	71.11	68.15
Overall gearing (times)	NM	NM
Interest coverage (times)	3.02	3.43

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	377.80	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	377.80	CARE BBB-; Stable	-	-	-	-

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

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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