

Alankit Limited

February 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	6.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short-term Bank Facilities	10.00	CARE A3 (A Three)	Revised from CARE A3+ (A Three Plus)
Total	16.00 (Rupees Sixteen crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Alankit Limited (AL) factors in the deterioration in its financial risk profile in FY19 (refers to the period of April 01 to March 31) as reflected by its declining profitability and deterioration in its debt coverage indicators. The rating revision also factors in moderation in the financial flexibility and liquidity position of the company. The ratings continue to factor in the high dependence of the company on continuation of govt. schemes and significant exposure of AL to its wholly owned subsidiaries.

The ratings, however, continue to derive strength from its experienced promoters, diversified product offering, geographically wide service network, its growing scale of operations and comfortable capital structure.

Rating Sensitivities

Going forward, ability of Alankit limited to consistently increase its scale of operations while sustaining its profitability margins and efficient management of working capital limits would be the key rating sensitivities.

Positives

- Increase in scale of operations by 30% or more with increase in profitability margins (at PBILDT Margin of 25% or more) on a sustained basis.
- Ability of the company to manage its working capital requirements while timely realizing from its debtors.

Negatives

- Any adverse impact of the ongoing IT Department search on the Company or its promoters.
- Significant Increase in the working capital Cycle on a sustained basis.
- Decline in income by more than 15% or decline in PBILDT Margin by more than 150 bps from the current levels in any of the year going forward.
- Deterioration in its Capital Structure (Overall Gearing of more than 0.70x in the projected period)

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

Incorporated in July 1989, Alankit Limited (AL) is promoted by Mr. Alok Kumar Agarwal (Chairman); he is a Fellow member of the Institute of Chartered Accountants of India (ICAI) and is also a member of Institute of Financial Consultant (IFC, Canada) and Institute of Internal Auditors (IIA, USA). He has nearly 40 years of experience in finance, administration and capital markets. Mr. Ankit Agarwal (Managing Director) has more than 10 years of experience in the field of finance and research activities. The board also consists of Mr. Yash Jeet Basrar (Independent Director) who has 47 years of experience in financial services industry, handling compliances and corporate consultancy. The management of AL is supported by a team of experienced and qualified professionals who are involved in day to day operations of the company.

Established and geographically wide service network

Promoters of AL are into service industry for around 3 decades with a wide experience in share trading and E-Governance field. AL offers various E-Governance services through its established and wide service network with 21 regional offices spread across at 6120 business locations across India. Further, during FY16 AL become a GSP (GST Suvidha Provider) under GSTN. Also, during FY18, company got a license from Controller of Certifying Authority (CCA) to operate as a Certifying

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

Authority (CA) for issuance of Digital Signature Certificate and also started to operate as a Full Fledged Money Changers (FFFMC) for which a license approval is sort from RBI through its subsidiaries.

Diversified product offering

AL has strong presence in the E-Governance space with wide and diversified product offerings. The company generates revenue majorly from E-Governance Services. The major services offered by Alankit Limited include GST Suvidha Provider, TIN Facilitation Center & PAN Center, Authorised Person (AP) for National Insurance - policy Repository (NIR), Point of Service (POS) for National Skills Registry (NSR), Manpower Services, Facilitator for Atal Pension Yojana (APY), Business Correspondent (BC), UID Enrolment (Aadhaar), National Distributor for Card Printers, Authentication User Agency (AUA), KYC User Agency (KUA). Apart from that company is also in the business of Sale of Printers, Ribbons, PVC Cards used for printing of Govt. cards. During FY19, revenue from E- governance Product Sales comprised of 9.32% (PY: 8.54%) of its total sales and revenue from E Governance services comprised of 79.56% (PY: 82.89%) of its total sales and the remaining revenue comprising of 11.12% of the total income is from other sources (interest income, repair & maintenance income and consultancy income). Alankit has recently diversified in new projects like MMJAY (Mukhya Mantri Jan Arogya) Cards (in Uttar Pradesh), Pradhan Mantri Jai Vikas Yojna (in Uttar Pradesh), Manipur EPIC Projects, Ummid Card Projects (in Orissa), Delhi EPIC Projects and Supply of PVC QR based Smart ID Card for Tamil Naidu students by School Education Department. Further, the company is appointed as a GST Suvidha Provider (GSP) by GSTN and will provide service/ products such as GSP & ASP with GST Muneemji, GST Saarthi, e-invoicing and the e-way bill software.

The total operating income in FY19 is largely comprised of revenue from PAN Card services which is around 38% of total operating income of company in FY19 (around 55% of total operating income of company in FY18) and manpower services which contributes around 33% of total operating income in FY19 (which contributes around 16% of total operating income in FY18). Alankit Limited is engaged in offering customized solutions for all types of manpower services (wide range of qualified human resources) across the industries for all types of projects.

Growing Scale of operations albeit modest & Comfortable Capital Structure

AL generates revenue from offering E-Governance services, E- Governance product sales and sales of EESL's products viz LED Bulb, fans distribution services with volatile revenue trends in its business segments and high dependency on continuation of govt. schemes related to area of its services offerings. The total operating income of AL has grown continuously from Rs. 30.18 crore in FY16 to Rs. 114.08 crore in FY19 at a CAGR of 55.78%. The growth in the total operating income in FY19 vis a vis last year is led majorly from increase in the revenue from manpower and business correspondent services from Rs. 17.29 crore in FY18 to Rs. 38.11 crore in FY19 at a healthy growth rate of 120.42%. The revenue from PAN Card services (TIN) stood at Rs. 43.73 crore during FY19 (PY: Rs. 58.91 crore). Total Operating Income of the company for H1FY20 stood at Rs. 67.81 crore as against operating income of Rs. 54.37 crore in H1FY19.

The company had a total debt of Rs. 13.80 crore as on March 31, 2019 which comprised of term loan of Rs. 8.83 crore and working capital borrowing of Rs. 4.97 crore as against total debt of Rs. 4.92 crore as on March 31, 2018 (working capital borrowings). AL had availed a dropline overdraft facility of Rs. 9.10 during FY19, out of which Rs. 8.83 crore was outstanding as on March 31, 2019 (Including Rs. 0.61 crore payable during FY20) and Rs. 8.52 crore as on Sep 30, 2019. Overall Gearing of the company increased to 0.19x as on March 31, 2019 from 0.08x as on March 31, 2018 and stood at 0.17x as on Sep 30, 2019.

Key Rating Weaknesses

Decline in Profitability Margin and Deterioration in Debt Coverage indicators

PBILDT Margin of the company declined from 30.11% on FY18 to 9.23% in FY19 majorly on account of increase in the Employee benefit expenses from Rs. 22.07 crore in FY18 (20.60% of total operating income) to Rs. 50.73 crore in FY19 (44.47% of total operating income) with increase in the revenue from providing man power for various E-Government services. Manpower Services is less profitable viz a viz other services (like PAN Card Services) provided by the company. PAT of the company declined from Rs. 21.08 crore in FY18 to Rs. 13.22 crore in FY19. PBILDT Margin of the company stood at 16.13% for H1FY20 as against PBILDT Margin of 17.84% in H1FY19.

The Interest Coverage Ratio of the company stood at 4.62 for FY19 as against 9.38 for FY18 and total debt/GCA stood at 0.67 years for FY19 (PY: 0.22 years).

Moderation in financial flexibility

Declining Trend in share price of Alankit Limited and significant erosion in its market capitalization had a weakening effect on Alankit Limited's financial flexibility. The stock price of Alankit Limited has declined sharply from Rs. 42.20 as on March 31, 2018 to Rs. 31.80 as on March 31, 2019 and further declined to Rs. 14.40 as on January 30, 2020. Correspondingly, the market capitalization of the company declined from Rs. 603.28 crore as on March 31, 2018 to Rs. 454.61 crore as on March 31, 2019 and further to Rs. 205.86 crore as on January 30, 2020. This had constrained the financial flexibility of the company.

High Dependence on Government Schemes

AL operates on a small scale with volatile revenue trend from its business segments and most of the business of the company depends upon the government backed schemes whose continuation might become an issue due to change in government or change in the focus area by the government departments or ministries. AL is dependent upon central and state government schemes for its e-governance business. Stability and continuance of all these government backed schemes remains uncertain. AL received around 34% of its revenue from PAN Card Services (for acceptance of fresh PAN applications and acceptance of change in PAN particulars). AL accepts PAN applications on behalf of NSDL through its chain of TIN-Facilitation Centers (TIN-FCs), PAN centers set up across the country and through AL's online portal. Also, AL is associated with leading banks as well as the distinct State Govt. centers to provide Aadhaar Services. Payment for these services rendered is received after the satisfactory report from the government officials which elongates the whole process.

For the business correspondent services and manpower outsourcing consultancy services it is dependent on banks and government departments. As a business correspondent for a number of leading banks of the country, the company provides banking services as and when required by the company's associated banks at given location and time. Going forward, ability of the company to increase its scale of operations with improving profitability, further diversification in the customer base and continuation of the govt. schemes would be the key rating sensitivities.

Exposure to wholly owned subsidiaries

AL's total exposure to its wholly owned subsidiaries by way of investments in equity shares was Rs. 20.77 crore, equivalent to 28.69% of its net worth as on March 31, 2019 (as against 31.44% of the tangible net worth as on March 31, 2018).

Going forward, any adverse impact on the financial risk profile of AL on account of its exposure towards the group companies would be a key rating sensitivity.

Income Tax Department search on the premises of the group

Income Tax Department had conducted a search at the Premises of the Company under Section 132 of the Income Tax Act, 1961 which concluded on October 23, 2019. The company, however had confirmed that no irregularities has been found during the search operations and no claims/ disclosures have been made against the company. Also, the company has not received any statement from the IT officials on the conclusive findings of said search. Going forward, any impact of the outcome of the same (if any) on the promoters or the financial risk profile of the company will be the key rating sensitivity.

Liquidity: Moderate

The liquidity profile of the company remains moderate with healthy cash accruals but almost full utilization of its fund based and non-fund based limits. The average of maximum fund based monthly utilization of the company for the past 12 months ending September 30, 2019 stood at 99.48%. Cash and bank balance of the company stood at Rs. 2.96 crore as on March 31, 2019 as against Rs. 4.28 crore as on March 31, 2018. The total receivables of the company has increased from Rs. 14.05 crore as on March 31, 2018 to Rs. 26.45 crore as on March 31, 2019 and further to Rs. 36.44 crore as on Sep 30, 2019. Average collection period of the company increased from 46 days in FY18 to 59 days in FY19. Current ratio increased and stood at 1.38x as on March 31, 2019 as against 0.71x as on March 31, 2018 on account of high trade receivables and low trade payables. Trade Payables of the company have decreased from Rs. 25.75 crore as on March 31, 2018 to Rs. 14.60 crore as on March 31, 2019 (Rs. 24.37 crore as on Sep 30, 2019).

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology-Service Sector Companies](#)

[CARE's Methodology for factoring linkages in ratings](#)

About the Company

Alankit Limited (AL) is promoted by Mr. Alok Kumar Agarwal (Chairman), was incorporated in July, 1989 as G.D.M. Jewelry Manufacturing Company Private Limited for manufacturing of gold jewelry products, later in February 1994 changed its name to Euro Gold Jewelry Limited. From May 2009, the company changed its business into share and commodity trading and broking and the name of the company was changed to Euro Finmart Limited. Later in August 2014, company diversified into e-governance services and the name of the company was changed to the present one. AL is a part of the Alankit Group, promoted by Mr. Alok Kumar Agarwal. Alankit Group is a conglomerate of 10 Group companies with diversified activities into

Financial Services, e-Governance, Insurance & Health Care verticals. AL is headquartered in New Delhi with network of 21 regional offices across the country & presence in 3 overseas locations- London, Dubai & Singapore.

AL is mainly into the business of E-Governance. The major services offered by Alankit Limited include GST Suvidha Provider, TIN Facilitation Center & PAN Center, Authorised Person (AP) for National Insurance - policy Repository (NIR), Point of Service (POS) for National Skills Registry (NSR), Manpower Services, Facilitator for Atal Pension Yojana (APY), Business Correspondent (BC), UID Enrolment (Aadhaar), National Distributor for card Printers, Authentication User Agency (AUA), KYC User Agency (KUA). Apart from that company is also in the business of Sale of Printers, Ribbons, Smart Cards used for printing of several Govt. cards.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	107.15	114.08*
PBILDT	32.26	10.53*
PAT	21.08	13.22
Overall gearing (times)	0.08	0.19
Interest coverage (times)	9.38	4.62

A: Audited

*excluding one-time income of Rs 15.06crore

Status of non-cooperation with previous CRA: NA

Any other information: NA

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-Cash Credit	-	-	-	6.00	CARE BBB; Stable
Non-fund-based-Short Term	-	-	-	10.00	CARE A3

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-Cash Credit	LT	6.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (15-Nov-18)	1)CARE BBB+; Stable (26-Oct-17)	-
2.	Non-fund-based-Short Term	ST	10.00	CARE A3	-	1)CARE A3+ (15-Nov-18)	1)CARE A3+ (26-Oct-17)	-

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst 1 Contact

Name: Ms Ravleen Sethi
Contact no: 011 - 4533 3278
Email ID: ravleen.sethi@careratings.com

Analyst 2 Contact

Name: Mr Gaurav Dixit
Contact no: 011 - 4533 3235
Email ID: gaurav.dixit@careratings.com

Business Development Contact

Name: Swati Agrawal
Contact no: +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

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