Ceinsys Tech Limited

October 06, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long term Bank Facilities	78.53 (reduced from 76.87)	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Reaffirmed**
Short-term Bank Facilities	60.00	**CARE A3 (A Three)**	**Reaffirmed**
Total	**138.53 (Rupees One Hundred Thirty Eight crore and Fifty Three lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of Ceinsys Tech Limited (CTL) (formerly known as ADCC Infocad Limited) continues 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, providing revenue visibility in the medium term. The ratings also factor in positive traction in execution of orders leading to an improvement in the profitability and cash accruals during FY20 (refers to a period April 1 to March 31). Moreover, the company has repaid a sizeable portion of its higher cost inter-corporate deposits (ICD's) during FY20 and Q1FY21.

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

Furthermore, even while CTL has a healthy order book position, the restriction owing to pandemic in India is expected to continue to dampen activity which may have a bearing on the company. The same has resulted in a subdued performance leading to operating and cash losses registered during Q1FY21 (Unaudited; refers to a period from April 1 to March 31). CARE also takes note of the resignations of key managerial personnel and internal auditors of the company including the CFO, Managing Director and Independent director during Q1FY21. On discussion with the management, the same was mainly on account of their pre-occupations and personal reasons.

Rating Sensitivities

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

- Sizeable growth in its total operating income by executing orders in the consultancy business along with improvement in its PBILDT margin to above 30% on a sustained bases
- Improvement in its average collection period to around 60 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 Factor: Factors that could lead to negative rating action/downgrade

- Any substantial un-envisaged losses, leading to weakening of the credit profile in the coming quarters
- Decline in total operating income by more than 20% from envisaged level on sustained basis
- PBILDT margin falling below 20% on sustained basis
- Any sustained delay in execution of orders in hand
- Significant deterioration in average collection levels leading to further liquidity stress.

Outlook: Negative

The outlook remains 'Negative' owing to the subdued performance in Q1FY21 resulting in cash losses during the period. Furthermore, despite improvement in collections, the liquidity position continues to remain stretched with high utilizations in working capital borrowings. Furthermore, the outlook reflects CARE's belief that order execution may remain slower in the medium term owing to the pandemic. Also, recovery could take longer if the economic slowdown continues. The outlook may be revised to 'Stable' if CTL is able to achieve its pre-covid traction in execution and profitability, thereby meaningfully contributing to improvement of overall credit risk profile of the company.

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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Management

CTL is promoted by Mr. Sagar Meghe (CMD: Chairman and Managing 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 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 in to 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 as a result of which it has seen a robust increase in its order book position during FY20. 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 Rs.400.32 crore as on March 31, 2020. During FY20, the company was able to add orders to the tune of Rs.174 crore. The order book position remains healthy there-by giving a revenue visibility over the medium term. CTL's order book consists primarily from government agencies (~90% of total orders) and remaining from corporate entities. The company has changed its product/service mix, shifting focus towards consultancy business from survey business, over the past two years. Also, the company has expanded into new domains like Defense, homeland security and has ventured into professional consultancy, smart city projects likely to account for major proportion of revenue in upcoming years.

Growth in scale of operations and profitability in FY20

The total operating income (TOI) of the company grew at a CAGR of 13.55% during the past 3 years ended FY20, with a Y-o-Y growth of 13.75% to Rs.201.44 crore in FY20 (as compared to Rs.177.08 crore in FY19). The growth was primarily driven by an increase in revenue from Enterprise Geospatial & Engineering Services (EGES) segment from Rs.157.65 crore in FY19 (~91% of total sales) to Rs.176.22 crore in FY20 (~89% of sales in FY20). With the shift towards consultancy business which is a higher margin segment vis-à-vis survey projects the PBILDT grew to Rs.55.01 crore in FY20 as compared to Rs.27.47 crore in FY19. Furthermore, PAT moved in tandem and stood at Rs.25.08 crore in FY20 as against Rs.2.74 crore in FY19. The higher PBILDT base enabled better fixed cost absorption and resulted in higher PBILDT and PAT margins during the year. The cost structure consists majorly of costs pertaining to ancillary third party software products sold with the service offered and employee cost. There was a marginal increase in the employee base during FY20. However, revenue per employee increased at a Y-o-Y rate of 7.2% and average cost per employee declined by 18.3%, giving a boost to profitability. Furthermore, the company has repaid a sizeable portion of its higher cost inter-corporate deposits (ICD's) during FY20 to the tune of Rs.11.61 crore and Rs.9.58 crore in 5MFY21 (refers to a period from April 1 to August 31)

Key Rating Weaknesses

Resignation of Key Managerial Personnel and Internal Auditor

During FY21, there have been resignations of key managerial personnel including the Managing Director, CFO and the Independent director and internal auditors of the company. As per the disclosures made to the stock exchange and on discussion with the management, the same was mainly on account of their pre-occupations and personal reasons.

Decline in TOI and losses registered in Q1FY21 due to the impact of Covid-19

During Q1FY21 (UA), CTL has registered a significant y-o-y decline in TOI and has registered a PBILDT and PAT loss of Rs.2.42 crore and Rs.6.29 crore respectively. The company has implemented work from home model for most of its workforce. the company faced early teething issues in implementation of the work from home model. On discussion with the management it was understood that the consultancy segment of the business was being able to operate, however, the survey segment was affected due to the lockdown. The company had availed ad-hoc limits under their Covid-19 scheme and moratorium for the interest payments for a few of the term loans to tide through the lockdown. Furthermore, the restrictions owing to pandemic in India are expected to continue to dampen activity which may have a bearing on the company. The same has resulted in a subdued performance leading to operating and cash losses registered during Q1FY21

Moderate capital structure and debt protection metrics

As on March 31, 2020, total debt stood at Rs.97.12 crore (as against Rs.121.80 crore as on March 31, 2019). The debt mainly comprised of working capital borrowings (60% of total debt), ICD's (35% of total debt) and term loan (5% of total debt). The overall gearing ratio improved and remained moderate at 1.13x (as against 1.91x as on March 31, 2019) on account of accretion of profits to reserves and scheduled repayment of term loans. With the moderate capital structure and improved profitability the debt coverage were comparatively better with a TDGCA of 3.44x and PBILDT interest coverage of 3.17x as at the end of FY20 (as against 16.32x and 1.54x respectively in FY19).

Liquidity position: Stretched

Liquidity position of CTL is characterized by a moderate cushion in accruals vis-à-vis repayment obligations. The company has sought moratorium for its term loan facilities from its lenders as part of the Covid-19 Regulatory Package announced by Reserve Bank of India (RBI). Accordingly, for such loans, scheduled payments that were due between March 20' –August 20' are deferred. It is expected that the company would be meeting its revised debt repayments, after considering moratorium, through its internal accruals. Average collection period for the year FY20 continues to remain high although has improved when compared to the previous years. The company has reduced its dependence on higher interest bearing unsecured loans during the year, however the working capital utilization remained on the higher side at approximately 94% during the last 12 months ended August 20'.

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 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, 2020 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.

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

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	Q1FY21 (UA)
Total operating income	177.08	201.44	28.10
PBILDT	27.47	55.01	(2.42)
PAT	2.74	25.08	(6.29)
Overall gearing (times)	1.91	1.13	NA
Interest coverage (times)	1.54	3.17	NM

A: Audited; UA: Un-Audited. NA: Not available, 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-Cash Credit	-	-	-	70.50	CARE BBB-; Negative
Non-fund-based - ST-BG/LC	-	-	-	60.00	CARE A3
Fund-based - LT-Term Loan	-	-	February 2025	4.03	CARE BBB-; Negative
Fund-based - LT-Working Capital Demand loan	-	-	March 2021	4.00	CARE BBB-; Negative

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-Cash Credit	LT	70.50	CARE BBB-; Negative	-	1)CARE BBB-; Negative (21-Aug-19)	1)CARE BBB-; Negative (31-Oct-18)	1)CARE BBB-; Stable (19-Sep-17)
2.	Non-fund-based - ST-BG/LC	ST	60.00	CARE A3	-	1)CARE A3 (21-Aug-19)	1)CARE A3 (31-Oct-18)	1)CARE A3 (19-Sep-17)
3.	Fund-based - LT-Term Loan	LT	4.03	CARE BBB-; Negative	-	1)CARE BBB-; Negative (21-Aug-19)	1)CARE BBB-; Negative (31-Oct-18)	1)CARE BBB-; Stable (19-Sep-17)
4.	Fund-based - LT-Working Capital Demand loan	LT	4.00	CARE BBB-; Negative	-	-	-	-

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% 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 the 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

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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About CARE Ratings:
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