

Compucom Software Limited

January 09, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	1.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long-term/Short-term Bank Facilities	40.00	CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable/A Three)	Assigned
Total Facilities	41.00 (Rs. Forty one crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Compucom Software Limited (CSL) derive strength from vast experience of the promoters in the industry and its long track record of securing as well executing projects from state governments. The ratings further, draw strength from its diversified revenue stream, healthy profitability margins, and comfortable capital structure as well as debt coverage indicators.

However, the ratings are constrained on account of fluctuating scale of operations, tender based nature of operations with higher dependence on tenders floated by State Governments, working capital intensive nature of operations due to elongated receivable period with frequent writing off of bad debts and high competition from organized and regional players. The ratings are further constrained on account of implementation risk associated with diversification project undertaken by the company.

The ability of the company to increase its scale of operations by getting successful in tenders of state governments for new projects, timely realization of receivables and timely completion of the diversification project without any cost overrun would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters with established track record of operations: Being in the industry since 1999, CSL has long track record of operations along with vast experience of promoters in the industry. Mr. Surendra Kumar Surana, a qualified engineer, is having more than 25 years of experience in the industry and is working in the capacity of Managing director and Chief Executive Officer (MD & CEO). Further, the company has highly qualified and experienced board of directors alongwith experienced staff looking after different functions.

Demonstrated track record in securing and executing projects from State Governments: CSL derives around 75% of its income (consolidated) from its learning solution services vertical including Information & Communications Technology (ICT) and Operations & Maintenance (O&M). The company has completed two ICT and Computer Aided Learning Programme (CALP) project of Rajasthan government in past and is currently executing ICT-III project of Govt. of Rajasthan and ICT as well as Computer Aided Training Programme of Govt. of Bihar. The company directly participates in the tenders invited by the state governments for computer added learning programme (CALP) and ICT projects. Further, the company also participates in tenders for E-governance activities of Govt. of Rajasthan.

Diversified revenue streams with healthy profitability margins: CSL (standalone) derived 82% of revenue from learning solution segments (including E-governance services), 11% from software segment and 3% from wind power generations reflecting diversified revenue streams. Further, profitability margins of the company remained healthy with PBILDT and PAT margins of 33.55% and 4.31% respectively in FY17.

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

Comfortable capital structure and debt coverage indicators: Capital structure of CSL stood comfortable with overall gearing of 0.05 times as on March 31, 2017; improved on account of scheduled repayment of long term debt as well as accretion of profits to reserves. Further, debt coverage indicators of the company also stood comfortable with PBILDT interest coverage ratio of 9.28 times in FY17 and total debt to GCA of 0.45 times as on March 31, 2017.

Key Rating Weaknesses

High receivable from state department for ICT projects: ICT projects are long term projects awarded by the state governments through a competitive bidding process. The usual tenor of an ICT project is 5 years. CSL recognizes its revenue based on the Percentage of completion method, in which it recognizes revenue based on the cost incurred as percentage of the total project cost. However, the collection from the ICT projects is received as per the agreed terms of the contract which may differ in each individual contract. This result in cash flow mismatch and high debtor in the balance sheet as the revenue is recognized before the collection.

Further, since the counterparties are the respective state governments, the collection period varies from 6-9 months with various state departments once the bills are raised leading to high debtors. Due to this the company's accounts receivables consistently remained high during the last three years. Further, the company has written off past dues to the tune of Rs.15.80 crore in FY17 (Rs.9.55 crore in FY16) due to non-realisation of the same from the respective state governments.

Working capital intensive nature of operations: CSL has working capital intensive operations due to elongated receivable period. Major portion of the company's funds requirements are met through net-worth and working capital lines. In the past the company's ICT projects had long payment period, thereby leading to higher debtors and income accrued but not due. However the new ICT projects has better payment plan and provide more liquidity to the company with one year vendor financing. Therefore going forward, the company expects the receivable position to improve along with the liquidity of the company. Further, the company has available unencumbered cash and bank balance of Rs.5.67 crore to meet its working capital requirement in case of delay in receipt of dues.

Competition from other organized and regional players: CSL faces stiff competition in its ICT business from established as well as regional players. Therefore, with the increasing competition it becomes important for CSL to maintain its delivery performance standards and keep pricing of its products in line with the competition. However, the company's revenue from ICT business is concentrated in Rajasthan and Bihar state only. Further, the company faces competition from organized players like Infosys and TCS in E-governance business.

Implementation risk associated with diversification project: The management of the company is planning to diversify its revenue streams by investing into hospitality sector with 50 room budget segment hotel in Sitapura, Jaipur. Total envisaged cost of the project is Rs.13 crore to be funded through internal accruals and excess cash available on balance sheet. The company is executing project on its additional land available in its existing premises. Project is envisaged to be completed by May, 2019.

High dependence on tenders floated by state governments resulting in fluctuating scale of operations: Majority of CSL's revenue in the past was generated through participation in tenders floated by state governments for the CALP/ICT projects rendering its operations dependent on the policies of government organizations. CSL has participated in tenders floated by the Government of Rajasthan (GoR) and Government of Bihar (GoB) for providing computer education and hardware in Government schools in these states. Since, tenders for these projects are not announced by the states on a regular basis, the company's income has shown wide fluctuation in the past.

Industry Outlook

Currently, India has 2.34 lakh secondary schools with 38.30 million enrolled students of which 16.91 million students are enrolled in 99,902 government schools. Further, 85343 schools have been approved for ICT out of which 62,917 schools are under implementation for the ICT project and 22426 schools are yet to be implemented indicating strong demand for ICT project in the schools.

Analytical approach: Consolidated approach has been considered. CSL has two subsidiaries namely ITneer Inc. and CSL Infomedia Pvt Ltd. ITI is engaged in computer consulting services in form of turn-key projects to various clients in USA which it outsources to CSL whereas CIPL is mainly operating in multimedia, Content Development, Education TV Segment and provides Satellite Education infrastructure which is utilized by CSL for providing education services.

Applicable Criteria

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

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

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

[CARE's methodology for Service sector companies](#)

[CARE's methodology for education institutions](#)

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

[Criteria for Short Term Instruments](#)

About the Company

Compucom Software Ltd. (CSL) is Jaipur (Rajasthan)-based public limited company which was incorporated in 1995 by Mr. Surendra Kumar Surana. Subsequently, CSL got listed on stock exchanges in 1999. CSL is primarily engaged in providing computer education and training services in government schools in public private partnership (PPP) mode apart from software development and e-governance services as well as generation of wind energy.

The company has also promoted two subsidiaries namely ITneer Inc (ITI) and CSL Infomedia Pvt Ltd (CIPL). ITI is engaged in computer consulting services in form of turn-key projects and skilled programmers to various clients in USA. CIPL is mainly operating in multimedia, Content Development, Education TV Segment and Satellite Education. CIPL has two TV Channel one "JAN TV", Satellite TV channel and "JAN TV PLUS" (an Infotainment Channel).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	61.18	58.30
PBILDT	29.69	19.56
PAT	7.70	2.51
Overall gearing (times)	0.12	0.05
Interest coverage (times)	8.52	9.28

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	40.00	CARE BBB; Stable / CARE A3
Fund-based - LT-Bank Overdraft	-	-	-	1.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	40.00	CARE BBB; Stable / CARE A3	-	-	-	-
2.	Fund-based - LT-Bank Overdraft	LT	1.00	CARE BBB; Stable	-	-	-	-

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