Compucom Software Limited

March 06, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long-term Bank Facilities	1.00	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Reaffirmed
Long-term / Short-term Bank Facilities	40.00	**CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable/A Three)**	Reaffirmed
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) continue to 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 remained constrained on account of moderate scale of operations with decline in Total Operating Income in FY18 (refers to period from April 01 to March 31), 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 albeit moderate liquidity position 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 and stabilisation of operations thereon 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 director alongwith experienced staff looking after different functions.

Demonstrated track record in securing and executing projects from State Governments: CSL derives around 71% 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 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. During 9MFY19, the company has received tenders for three more ICT projects worth Rs.82.34 crore (of which one project is on Build Own Operate Transfer (BOOT) basis and others are for supply of hardware) covering 2000 schools in Rajasthan out of which it has already booked revenue of Rs.46.29 crore during 9MFY19. The company has outstanding unexecuted project value of Rs.36.05 crore as on December 31, 2018 and tenure of one of these ICT projects worth Rs.37.48 crore (outstanding unexecuted project value of Rs.32.17 crore as on December 31, 2018) on BOOT basis is for five years resulting in limited revenue visibility and hence going forward, getting new ICT projects would be crucial.

Diversified revenue streams with moderate scale of operations and healthy profitability margins: CSL derived 71% of revenue from learning solution segments (including E-governance services), 11% from software segment and 2% from wind power generations reflecting diversified revenue streams. Total Operating Income of CSL (consolidated) declined by 7.95% to Rs.54.44 crore in FY18 on account of expiration of existing education contracts and shortfall of new government orders along with decline in revenue generated from software solutions. Further, profitability margins of the company

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

remained healthy with PBILDT and PAT margins of 34.24% and 9.88% respectively in FY18 as against 33.41% and 4.41% respectively in FY17. During 9MFY19, CSL at standalone level reported TOI of Rs.63.32 crore with PBILDT and PAT of Rs.15.24 crore and 4.38 crore respectively reflecting PBILDT and PAT margins of 24.07% and 6.92% respectively. The margins reported in 9MFY19 were relatively lower than the ones reported in FY18 as majority of the revenue was generated from supply of hardware in schools which tend to fetch comparatively lower margins than the activity of providing learning solutions/education services.

Comfortable capital structure and debt coverage indicators: Capital structure of CSL stood comfortable with overall gearing of 0.003 times as on March 31, 2018; improved from 0.06 times as on March 31, 2017 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 18.27 times in FY18 and total debt to GCA of 0.03 times as on March 31, 2018. During FY19, the company has availed debt of Rs.13.17 crore with tenure of 18 months for financing purchase of hardware for supply in schools under the new ICT projects sourced by it which has increased its debt to some extent. Further, the company has also been sanctioned term loan of Rs.11 crore for part-funding its hotel project.

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 Rs13.12 crore in FY18 (Rs.15.99 crore in FY17) due to non-realisation of the same from the respective state governments.

Liquidity Analysis

Working capital intensive nature of operations albeit moderate liquidity position: CSL has working capital intensive nature of 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 receivables period, thereby leading to higher debtors and income accrued but not due. However, the company has available unencumbered cash and bank balance as well as liquid investments of Rs.27.11 crore to meet its working capital requirement in case of delay in receipt of dues as well as for meeting its debt servicing obligations in case of any contingencies. The company expects cash accruals of Rs.10-16 crore as against debt repayments of Rs.6-7.10 crore in the next 2 years.

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 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 foraying into hospitality sector with 50 room (including 2 suites) budget segment hotel in Sitapura, Jaipur. Total envisaged cost of the project is Rs.19.41 crore (including working capital margin of R.0.15 crore) to be funded through term loan of Rs.11 crore and remaining through internal accruals and excess cash available on balance sheet. The company has incurred cost of Rs.3.48 crore towards the project funded through term loan of Rs.2.13 crore and remaining through internal accruals till January 31, 2019. The project is expected to be completed by April, 2020 and the repayment of term loan taken for the project will commence from August, 2020. Going forward, timely completion of said project without any cost overrun and stabilisation of operations post-completion of the project considering the fact that promoters do not have relative experience in hospitality industry would be crucial.

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 fluctuation in the past. Further, the company has started participating for the tenders floated by Government of Gujarat.

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. However, the Board of CSL in December, 2018 has decided to divest its entire stake in ITneer, Inc. process of which is underway. (List of subsidiaries attached as Annexure-3)

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 engaged in software development and e-governance services, providing computer education and training services in government schools through training services in public private partnership (PPP) mode as well 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).
CSL-Consolidated

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	59.14	54.44
PBILDT	19.76	18.64
PAT	2.61	5.38
Overall gearing (times)	0.06	0.003
Interest coverage (times)	9.36	18.27

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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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	40.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (09-Jan-18)	-	-
2.	Fund-based - LT-Bank Overdraft	LT	1.00	CARE BBB; Stable	-	1)CARE BBB; Stable (09-Jan-18)	-	-

Annexure-3: List of Subsidiaries

Name of Subsidiary	% of Holding as on March 31, 2018
ITneer, Inc., USA	100.00
CSL Infomedia Private Limited, India	65.00

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