

## Inspirisys Solutions Limited

December 01, 2020

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Short-term Bank Facilities	2.60	CARE A3 (A Three )	Reaffirmed
Total Facilities	2.60 (Rs. Two crore and sixty lakhs only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facility of Inspirisys Solutions Ltd (ISL) continues to take into account the strong parentage of the company and long standing relationship with multiple vendors, turnaround in the financial performance since FY19 and modest profitability. Furthermore, the rating also factors in the continuous financial support from the parent company CAC Holdings Corporation (CAC) in the form of equity, loans and corporate guarantees. The rating is however constrained by the moderate client concentration risk, elongated operating cycle and highly competitive nature of the IT industry.

### Rating Sensitivities

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

- Improvement in PBILDT margins to above 15%
- Improvement in average collection period to about three months

*Negative Factors- Factors that could lead to negative rating action/downgrade:*

- Any withdrawal of the support extended by CAC
- Deterioration in the credit risk profile of CAC
- Losses reported by the company on a consistent basis

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Established track record of operations and strong relationship with multiple vendors:** ISL continues to be an established player in the IT Infrastructure Solution (IT IS) and IT Infrastructure Management Services (IT IMS) segments with over two decades of experience and a nationwide presence backed by eight regional offices and over 100 direct service locations. The revenues of ISL are broadly diversified between its three different verticals, Products (formerly System Integration), Services and Warranty Management Services (WMS). The products division contributed to 35.87% of revenue, services contributed to 59.92% of revenue and WMS contributed 4.21% of revenue.

ISL has established strong relationships with major technology companies like HP, IBM, CISCO, ORACLE, Microsoft etc. to offer services around their products apart from other technology vendors supporting a diversified product range. ISL is also one of the implementing partners of Finacle by Infosys.

**Continuous support from the parent:** CAC infused Rs.24.75 crore as equity during FY14 by subscribing to additional issue of shares. Furthermore, CAC infused Rs 26.28 crore and Rs 30.55 crore as equity in FY19 and FY20 respectively and has provided unsecured loans to enable it to manage its working capital. Over and above the assistance provided by way of equity infusions and unsecured loans, in the past, CAC has also enabled ISL to reduce its interest expenses by providing access to working capital facilities from Japanese Banks. These banking lines are backed with corporate guarantees from CAC.

**Modest profitability after turnaround in FY19:** Since the investment by CAC in FY14, the company had been struggling operationally to report profits. This was primarily on account of a few loss-making business divisions which have been either been shut down or sold over the years. After these measures, the company had started seeing profits from FY19 and has been able to maintain the margins in FY20. Even with the fall in TOI of 22.31% in FY20, ISL has been maintained a PBILDT margin of 7.42% in FY20 as against 7.72% in FY19. In Q2FY21, the company's TOI was at Rs.83.77 crore as against Rs.55.28 crore in Q1FY21. However, ISL reported a loss of Rs. 1.54 crore in Q2FY21. The decline in profitability during Q2FY21 is attributed to reducing margins for system integration-related projects.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### Key Rating Weaknesses

**Client concentration risk:** Even with the diversified segments, the company has a moderate client concentration risk. It derives 55% of the TOI from top 10 customers and 47% of the TOI from top 5 customers. In H1FY21, the concentration in top 10 customers was around 54.14%.

**Elongated operating cycle:** The operating cycle of the company is usually elongated since PSU entities comprise a significant portion of clients. The operating cycle stood at around 105 days for FY20. The average collection period for FY20 was 149 days. The average collection period for FY20 was 149 days. The company extends a credit period of 120-160 days to system integration clients (mostly banks and PSUs) and 90 days to other clients. The company has back-to-back arrangement with most of its creditors and makes payment on receipt of collections.

**Intense competition in the IT industry:** The IT-IS & IT-IMS segments in which the company operates are highly competitive with major established players and other small-scale players. The competition can also affect the profit margins as the company has to offer services at a lower price and good credit terms to attract customers. Additionally, wage inflation, employee attrition levels and adverse changes in U.S. laws, including those relating to outsourcing and immigration inherent to the IT services sector remain challenges in the future.

**Prospects and COVID impact:** The impact of COVID on the company can be seen in its declined profitability in Q1FY21 and Q2FY21. The product segment of the company took most of the hit in Q1FY21 and Q2FY21 since the clients – mostly PSUs – deferred most of the non-critical capital expenditure on buying hardware. However, the services business was able to function throughout the lockdown albeit a few delays due to access to project sites.

The IT-BPM industry in India has been the flag-bearer of the country's exports for the past two decades. It is estimated that the size of the industry will grow to US\$ 350 billion by 2025. COVID-19 has also accelerated the digital adoption across India especially in Government and PSUs and healthcare which are the main segments that ISL operates in. Going forward, the ability of the company to cross-sell its services and retain its customers will be key factors for growth.

### Liquidity – Adequate

The company had a cash and bank balances of Rs. 18.72 crore as on September 30, 2020. With the support of the parent company, ISL has credit lines in Japanese banks SMBC and Mizuho Bank. The company has total fund based limits of Rs.60 crore to fund its working capital requirements and the average utilisation for 12 months period ended September 2020 is very low around 7%. All these Bank facilities are secured by Corporate Guarantees provided by CAC Holding Corporation. The company also has a Bank Guarantee facility from Axis Bank of Rs.2.60 crore.

**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](#)

[Rating Methodology - Service Sector Companies](#)

[Rating Methodology: Factoring Linkages in Ratings \(Parent-Subsidiary Linkage\)](#)

[Liquidity Analysis – Non- Financial sector](#)

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

### About the Company

ISL was incorporated on June 08, 1995 in the name of Accel Computers Limited as a public limited company. The name of the company was changed from 'Accel Frontline Limited' to 'Inspirisys Solutions Limited' in FY19. Inspirisys Solutions Limited (ISL) is engaged in providing IT infrastructure and Software services. ISL operates under 3 different verticals viz. Products (formerly System Integration), Services (Combination of erstwhile Information Management and Software Services divisions) and Warranty Management Services (WMS). During January 2014 CAC Holdings Corporation (CAC) - Japan acquired 51% stake in ISL through share purchase from promoters and through open offer. As on September 30, 2020, CAC held 69.95% of the shares of ISL and remaining is held by public.

Brief Financials (Rs. crore)	FY19(A)	FY20(A)
Total operating income	444.94	348.24
PBILDT	34.34	25.85
PAT	1.83	6.57
Overall gearing (times)	5.85	1.72
Interest coverage (times)	2.08	2.00

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

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

**Complexity level of various instruments rated for this company:** Annexure-4

**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 - ST-BG/LC	-	-	-	2.60	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 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	-	-	-	-	1)Withdrawn (18-Sep-18)	1)CARE BB+; Stable (22-Sep-17)
2.	Non-fund-based - ST-BG/LC	ST	2.60	CARE A3	-	1)CARE A3 (26-Dec-19)	1)CARE A4+ (18-Sep-18)	1)CARE A4+ (22-Sep-17)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities –** Not Applicable

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	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. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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### Disclaimer

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