

Inspirisys Solutions Limited

December 26, 2019

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Short-term Bank Facilities	2.60 (Reduced from 11.52)	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total Facilities	2.60 (Rupees Two Crore and Sixty Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facility of Inspirisys Solutions Ltd (ISL) takes into account the turnaround in operating performance of the company with net profits being reported in FY19 and H1FY20 after a gap of nearly five years and improvement in the operating profits over the past three years. Furthermore, the rating revision takes into account the infusions of equity of Rs.57 crore in two tranches in FY19 and H1FY20 by the parent company CAC Holdings Corporation (CAC). The rating continues to take into account the strong parentage of the company and strong relationship with multiple vendors. The rating is however constrained by the moderate client concentration risk, elongated operating cycle, exposure to loss making subsidiaries and highly competitive nature of the IT industry.

Rating Sensitivities

Positive Factors

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

Negative Factors

- Any withdrawal of the support extended by CAC
- Deterioration in the credit risk profile of CAC

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations and strong relationship with multiple vendors

ISL is an established player in the System Integration and Infrastructure Management Services segments with over two decades of experience and a nationwide presence backed by eight regional offices and over 100 direct service locations. The revenue of ISL is broadly divided between its three different divisions, Products (previously System Integration (SI) division), Services (the erstwhile Infrastructure Management Services (IMS) and Software Services (SS) divisions were combined to form Services division in FY19) and Warranty Management Services (WMS). WMS is a relatively small division and is engaged in providing after-sales service for products under warranty with companies like Seagate, Sony and Samsung. The company has established strong relationships with major technology companies like HP, IBM, Cisco, Oracle and Microsoft to offer services around their products apart from other technology vendors supporting a diversified product range.

Demonstrated support from the parent

Since its acquisition in 2014, CAC has infused a total of Rs.81.60 crore as equity into ISL and has also provided unsecured loans to the tune of Rs.55.29 crore to the various group entities. CAC has also enabled ISL to reduce its interest rates on its bank facilities by enabling the company to access working capital loans at a relatively lower interest from Japanese banks which are also guaranteed by CAC. CAC has also appointed some of its well-qualified and experienced executives in key positions of ISL to further strengthen the Indian operations and to explore opportunities to integrate operations of AFL with the global operations of CAC.

Turnaround of operations with better profitability being reported in FY19 and H1FY20

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 and impairment recognized or sold over the years. Furthermore, the company also had provided for some earlier transactions where amounts were not recoverable. The company has over the years restructured its operations and reported net profits in FY19 which continued in H1FY20 as well. The net worth of the company turned positive in FY19 aided by the equity infusion and profits reported.

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

Key Rating Weaknesses

Though the revenue of the company is diversified across various segments, it has a moderate client concentration risk. In FY19, top 10 customers contributed to 60.46% of the consolidated total operating income with the top 5 clients contributing 49%.

Elongated Operating Cycle

Since PSU entities comprise a significant portion of clients, the operating cycle of the company is elongated at around 86 days. The company extends a credit period of 120-150 days to PSU clients 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. The average collection period stood at 110 days during FY19.

Intense competition in the IT industry

The segments in which the company operates are highly competitive with major established players and innumerable small-scale players. This leads to higher competition in the industry. The competition can also affect the profit margins as the company has to offer services at a lower price to attract customers.

Exposure to loss-making subsidiaries

As on March 31, 2019, ISL had 5 wholly owned subsidiaries in India, Dubai, USA, UK and Japan and all the subsidiaries reported losses in FY19. The company had sold the Singapore subsidiary in FY18 and shut down two other subsidiaries, Inspirisys Solutions IT Resources Limited and Network Programs (Japan), Inc., USA. The company has replaced the management of the remaining subsidiaries and plans to focus on complete onsite offshore model to reduce costs at the subsidiary level and turn them profitable. As on March 31, 2019, ISL's total exposure to its subsidiaries stood at Rs. 37.54 crore. This includes equity investment of Rs. 6.69 crore and the balance as Loans and advances and trade receivables.

Liquidity- Adequate

The company's current ratio stood at 1.14 as on September 30, 2019 compared to 0.98 as on March 31, 2019. The cash and bank balances as on September 30, 2019 stood at Rs. 11.96 crore. The company has limited term borrowings and the accruals are sufficient in relation to the repayments. The company has total fund based limits of Rs. 130 crore to fund its working capital requirements and total non-fund based facilities of Rs. 125 crore mainly to provide performance guarantees. The average working capital utilization was about 41.75% during the past 12 months ending October 2019.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

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

[Rating Methodology - Service Sector Companies](#)

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

About the Company

Chennai-based ISL (listed in BSE), was originally incorporated in 1991 by Mr N R Panicker along with a few other associates. During January 2014, CAC Holdings Corporation, (CAC, Japan based IT services provider), acquired 51% stake in ISL through share purchase from the promoters and through open offer. CAC further increased its stake and as on September 30, 2019 CAC held 70% stake while the remaining was held by public. As on September 2019, ISL had five subsidiaries in Dubai, USA, UK and Japan.

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total operating income	404.72	446.78
PBILDT	19.75	36.64
PAT	50.92	1.83
Overall gearing (times)	NM	5.52
Interest coverage (times)	1.09	2.22

A: Audited; 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
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 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.	Non-fund-based - ST-BG/LC	ST	2.60	CARE A3	-	1)CARE A4+ (18-Sep-18)	1)CARE A4+ (22-Sep-17)	1)CARE A4+ (30-Nov-16) 2)CARE A4+ (Under Credit Watch) (01-Jun-16)

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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