August 26, 2021

Emudhra Limited: Ratings upgraded to [ICRA]BBB+(Stable)/A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - Cash Credit	8.00	8.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Long Term - Fund Based - Term Loan	25.00	25.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Short Term - Non-Fund Based	2.00	2.00	[ICRA]A2; upgraded from [ICRA]A3+
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in ratings takes into account the continuous healthy financial performance of the company characterised by operating margins of 29.5% in FY2021, comfortable capital structure with gearing of 0.3 times as on March 31, 2021 and strong coverage indicators with Total Debt/OPBIDTA of 0.9 times as on March 31, 2021 and interest cover of 30.8 times in FY2021 on the back of low debt and healthy profitability. Going forward, the company is expected to maintain the healthy financial risk profile supported by healthy operating margins and low debt levels. The ratings also take comfort from extensive experience of the promoter in the information technology industry and Emudhra Limited's (Emudhra) established track record of operations and strong market position as a leading licensed certifying authority for issuing digital signature certificate (DSC) in India, supported by its wide sales and distribution network across the country. The ratings are also supported by its diversified customer base in the DSC segment given it is largely retail in nature and established relationship with reputed customer base and strong order book in the enterprise solutions segment. Further, the company has invested a total amount of ~Rs. 30.3 crore in its overseas subsidiaries to increase its market share in the foreign market and the performance of the subsidiaries will remain a key rating monitorable.

The ratings, however, are constrained by Emudhra's moderate scale of operations as reflected in its top line of ~Rs 131 crore in FY2021 (even though the operating income achieved a growth of 13% in FY2021 from Rs. 116.4 crore in FY2021). The company is expected to achieve a healthy revenue growth in FY2022 on the back of improved average sales realisation of DSC and increase in sales of enterprise solution in the export market. The business is susceptible to changes in the regulatory framework, with respect to applicability of DSC and any changes in the guidelines by the Controller of Certifying Authorities (CCA), the regulatory body for certifying authorities in India. The company remains exposed to technology obsolescence risks, cyber security and data management risks given the nature of business. The company also faces stiff competition in the DSC segment, despite its strong market share, from other licensed certifying authorities leading to pricing pressures. Further, Emudhra faces competition from established players based out of U.S. and Europe in the international market for the enterprise solutions segment. However, Emudhra's enterprise solution has cost advantage over its competition supported by low payroll cost incurred in India.

The Stable outlook on the long-term rating reflects ICRA's expectation that Emudhra will continue to benefit from its established market position in the digital authentication market and enterprise solution segment coupled with healthy financial profile maintained by the company.

Key rating drivers and their description

Credit strengths

Established position as a licensed certifying authority for issuing DSC in India: Emudhra is a licensed by Controller of Certifying Authorities in India to issue DSC in India. It started operation in 2008 and is now a leading player in the digital authentication space supported by its wide network of controllers or agents spread across India. The company has a strong track record in digital authentication market and has issued ~18 lakhs DSC in FY2021.

Diversified customer base in the DSC segment and reported customer base in the enterprise solutions segment: DSC is used by individuals, corporates, Government etc. and finds applications across Government, private, public sector for various purposes. Thus, the customer base for this segment is largely retail in nature and it is wide and spread across country. The company has established relationships with reputed clients in the enterprise solution segment. The company's clientele comprises renowned companies from the IT, telecom and BFSI sectors including Tata Consultancy Services, First Abu Dhabi Bank, Larsen & Toubro Infotech Limited etc.

Healthy financial risk profile – The company's profitability remained healthy with the operating profit margin at 29.1% and ROCE at 24.7% in FY2021 on the back of higher realisation. The capital structure remained comfortable with gearing at 0.3 times as on March 31, 2021. The coverage indicators remained healthy with Total Debt/OPBIDTA of 0.9 times as on March 31, 2021 and interest cover of 30.8 times in FY2021 as compared to with Total Debt/OPBIDTA of 1.2 times as on March 31, 2020 and interest cover of 27.4 times in FY2020.

Credit challenges

Moderate scale of operations - The company's scale of operations remained moderate at Rs. 131.5 crore in FY2021, restricting the financial and operational flexibility to an extent (even though the operating income achieved a growth of 13% in FY2021 from Rs. 116.4 crore in FY2021). However, the operating income is expected to grow at a healthy growth rate in FY2022 on the back of improved average sales realisation of DSC and increase in sales of enterprise solution in the export market.

Exposed to changes in regulatory framework – The company is licensed by the CCA, Ministry of Information Technology and operates under the guidelines set by the Information Technology Act. This exposes its business to any changes in the requirements of CCA. Further, CCA has strict audit requirements, which DSC certifying authorities are required to follow. The license from controller of certifying authorities has been renewed in 2018 and is valid till until October 2023.

Exposure to technological obsolescence – The IT industry is susceptible to risks related to technological changes, competition from substitutes and shifts in customer demand apart from data management and cybersecurity risks. This necessitates continued investments in technology upgradation. Diversification efforts will support mitigation of the technological obsolescence risk.

Competition from other domestic and international players – The company faces competition in the DSC from other players like Sify Communications Ltd, Capricorn Identity Services Pvt. Ltd, (n) Code Solutions, Verasys etc. The intense competition results in limited pricing flexibility and bargaining power with the customers for the sale of DSC in the domestic market. Further, in the enterprise solutions business, it faces competition from established players based out of U.S. and Europe in the global market. However, Emudhra's enterprise solution has cost advantage over its competition supported by low payroll cost incurred in India.

Liquidity position: Adequate

The liquidity position of the company remains adequate supported by operational cash flow of Rs. 34.0 crore in FY2021, cash and bank balance of Rs. 9.1 crore as on March 31, 2021 and undrawn working capital limit of ~4.5 as on May 31, 2021. The average working capital utilisation stood at 57% for past 12 months till May 2021. The company is planning to incur a capex of ~Rs. 15.0-18.0 crore in FY2022 which will be funded from internal accruals of the company. The company has a repayment obligation of Rs. 4.7 crore in FY2022 and its cash accruals will be sufficient to service the repayment.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to achieve robust revenue growth on a sustained basis while maintaining its healthy profitability.

Negative factors – The ratings may be downgraded if there is de-growth in revenues along with decline in profitability or if there is any increase in working capital intensity weakens the liquidity position. Further, any regulatory changes adversely impacting revenue and profitability will also be a trigger for downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Information Technology (Service) Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the Consolidated financials of Emudhra Limited

About the company

Incorporated in 2008, Emudhra is a Bangalore based, licensed certifying authority involved in issuing digital signature certificates in India under its brand eMudhra. The company is licensed by the Controller of Certifying Authorities (CCA), Ministry of Information Technology and operates under the guidelines set by the Information Technology Act. Along with issuing digital signatures, it provides various enterprise solutions and services around digital signatures like authentication solutions, paperless office solutions, solutions for securing data at rest and data in transit. Apart from this, it also has solutions for Internet of Things (IoT), and other solutions around Public Key Infrastructure (PKI).

Key financial indicators (audited)

Blue Standalone	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	101.0	116.4	131.5
PAT (Rs. crore)	16.9	20.7	25.1
OPBDIT/OI (%)	29.7%	29.3%	29.5%
RoCE (%)	27.6%	29.4%	26.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.7	0.6
Total Debt/OPBDIT (times)	0.9	1.2	0.9
Interest Coverage (times)	26.3	27.4	30.8
DSCR (times)	22.8	13.3	2.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: The company has an outstanding rating of BWR BB(Stable)/A4; Issuer Non-Cooperating from Brickwork Ratings as on October 01, 2020.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Aug 26, 2021	Sep 24, 2020	Aug 14, 2019	-
1	Cash Credit	Long-term	8.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2	Term Loan	Long-term	25.00	21.6	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
3	Non-fund based	Short-term	2.00	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	-

Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Long Term - Fund Based - Cash Credit	Simple
Long Term - Fund Based - Term Loan	Simple
Short Term - Non-Fund Based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit				8.00	[ICRA]BBB+ (Stable)
NA	Term Loan	FY2019	-	FY2026	25.00	[ICRA]BBB+ (Stable)
NA	Non-fund based				2.00	[ICRA]A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Emudhra Ownership	Consolidation Approach
eMudhra (MU) Limited	100%	Full Consolidation
eMudhra Technologies Limited	51%	Full Consolidation
eMudhra Consumer Service Limited	76%	Full Consolidation
eMudhra DMCC	51%	Full Consolidation
eMudhra Pte Ltd	51%	Full Consolidation
eMudhra INC Ltd	51%	Full Consolidation
eMudhra B.V.	51%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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