November 03, 2022

Iris Business Services Limited: Long-term rating upgraded; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash Credit	14.00	14.00	[ICRA]BB+(Stable); upgraded from [ICRA]BB(Stable)
Short-term – Non-fund Based – Bank Guarantee	5.00	5.00	[ICRA]A4+; reaffirmed
Short-term – Non-fund Based – Forward Contract	0.75	0.75	[ICRA]A4+; reaffirmed
Total	**19.75**	**19.75**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade of Iris Business Services Limited (IBSL) factors in the company's sustained revenue growth in FY2022 and the current financial year, along with comfortable capital structure (gearing of 0.2 time as on March 31, 2022) and coverage indicators (interest coverage of 6.7 times and Debt/OPBIDTA of 0.9 time in FY2022). Moreover, the company's coverage metrics are expected to remain comfortable, on the back of improved internal accrual generation aided by improvement in scale and profit margins and no major debt-funded capital expenditure (capex). Additionally, the ratings continue to factor in IBSL's established operational track record and extensive experience of its promoters in the IT services sector, and its growing expertise in the eXtensible Business Reporting Language (XBRL) space. Leveraging on these strengths, the company has been able to expand its geographic footprint and develop a wide customer base, which includes reputed names.

The ratings, however, remain constrained by IBSL's modest scale of operations resulting in limited economies of scale and working capital intensive nature of operations. IBSL's operating margins remain vulnerable to competitive pressures in the industry and wage cost inflation. This was demonstrated by considerable decline in IBSL's operating margins in FY2022. However, the company has reported improvement in its operating margins in recent quarters, which is likely to sustain over the near to medium term. Additionally, the company's margins remain susceptible to adverse fluctuations in foreign exchange (forex) on account of considerable revenue contribution from the exports market.

The Stable outlook on the long-term rating reflects ICRA's opinion that IBSL will continue to benefit from its promoter's extensive experience in the industry, its expertise in the XBRL domain and its diversified geographical presence across key markets, including the domestic market, Europe, Asia Pacific, West Asia, Africa and North America.

Key rating drivers and their description

Credit strengths

IBSL's established operational track record and extensive experience of its promoters in the IT services sector – The promoters of IBSL have an experience of more than 15 years in the IT services industry, particularly in the financial structured data solutions and research domains. The company provides XBRL products and solutions to organisations globally, including several capital market regulators with presence in more than 40 countries for more than 30 XBRL products.

Well-established relationships with reputed customers across geographies – The company enjoys established relationships with reputed organisations and provides products and services to some fortune 500 companies as well. The revenues are well diversified across geographies. Domestic sales drove 45% of total revenues in FY2022, followed by sales in Europe (including the UK) (19%) and Africa (14%).

Comfortable capital structure and coverage indicators – IBSL registered a moderate growth of 7% in revenues to Rs. 61.3 crore in FY2022. However, in Q1 FY2023, it registered a year-on-year growth of 37.4% to Rs. 16.6 crore. Going forward, increase in scale is expected to be supported by the expansion of Federal Energy Regulatory Commission (FERC) mandate wherein IBSL has the second largest market share and environmental, social and governance (ESG) reporting mandates by regulators across the globe along with increasing interest in various regulators towards XBRL for other regulatory reporting. Given the steady accretion to reserves and no major increase in the debt levels in recent years, IBSL's capital structure and coverage indicators have remained comfortable with gearing of 0.2 time as on March 31, 2022 and interest coverage and total debt/OPBIDTA of 6.7 times and 0.9 time, respectively, in FY2022. The coverage metrics are expected to remain comfortable in the medium term owing to increased accruals and low funding requirements in the absence of any major planned capex.

Credit challenges

Modest scale of operations – IBSL's scale remained modest at Rs. 61.3 crore in FY2022, resulting in limited economies of scale. The growth was moderated due to the pandemic, which diverted the focus of regulators across the world, resulting in delays in adaption of XBRL mandates.

Working capital intensive nature of operations – The operations of IBSL remain working capital-intensive owing to an elongated receivable cycle. The receivable cycle has improved over the past two years with the increasing contribution of its Create segment as the receivable days are lower for private players than Government agencies/ regulatory authorities who are the primary customers of the Collect segment.

Vulnerability of margins to competitive pressures and forex fluctuations – Owing to the scale of operation of IBSL, its margins remain vulnerable to competitive pressures in the industry with the presence of relatively larger players. In FY2022, IBSL reported operating margin of 11.7%, largely impacted by wage cost inflation owing to revision of salaries to match market standards. However, the margins have witnessed improvement in recent quarters (13.9% and 13.4%, respectively, in Q4 FY2022 and Q1 FY2023). Furthermore, due to the substantial revenue contribution from exports, IBSL remains vulnerable to forex fluctuations. Though it uses foreign exchange forward contracts to hedge a part of its exposure, which provides some cushion against the forex risk.

Environmental and Social Risks

Environmental concerns – Given its service-oriented business, IBSL's direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

Social concerns – Like other Indian IT service companies, IBSL faces the risk of data breaches and cyber attacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Managing various facets of human capital, including skills, compensation, and training, is also a key differentiating factor among IT companies. IBSL's track record on this count has been in line with its mid-sized peers in the IT industry, which mitigates the human capital-induced social risks.

Liquidity position: Adequate

IBSL exhibits adequate liquidity position, supported by its internal accrual generation, unencumbered cash and liquid investments of ~Rs. 6 crore and buffer from undrawn working capital limits of ~Rs. 5.0 crore, as on August 31, 2022. The liquidity profile is expected to remain adequate over the near to medium term on the back of improvement in internal accrual generation, no debt repayment liability and no major capex plans.

Rating sensitivities

Positive factors – The rating could be upgraded if the company reports healthy growth in scale of operation, while maintaining adequate liquidity position and coverage indicators.

Negative factors – The rating could be downgraded if the company exhibits deterioration in profitability or a stretched working capital cycle leading to stress on its liquidity position, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Information Technology (Services) Industry
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of IBSL.

About the company

Established in year 2004, IBSL is engaged in providing products, services and solutions in financial instrumentation and research. The company earlier operated as a knowledge process outsourcing (KPO) entity and shifted its business from KPO services to financial instrumentation and research in FY2015. It currently operates through three business segments—Collect, Create and Consume. Headquartered in Navi Mumbai (Maharashtra, India), IBSL has its operational presence in India as well as overseas markets such as the UK, the US, Italy and South Africa. The company has set up regional offices in Singapore, the US and Italy to cater to regional demands for its products and services.

Key financial indicators (audited)

IBSL Consolidated	FY2021	FY2022
Operating income	57.1	61.3
PAT	4.1	1.0
OPBDIT/OI	20.0%	11.7%
PAT/OI	7.2%	1.6%
Total outside liabilities/Tangible net worth (times)	1.2	1.2
Total debt/OPBDIT (times)	0.5	0.9
Interest coverage (times)	6.7	6.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
		Current rating (FY2023)				Chronology of rating history for the past 3 years		
					Nov 03, 2022	27-Sep-21	1-Oct-20	-
1	**Fund based Cash Credit**	Long-term	14.00	-	**[ICRA]BB+ (Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB- (Stable)**	-
2	**Long-term, fund based – Term Loan**	Long-term	0.00	-	-	-	**[ICRA]BB- (Stable)**	-
3	**Non-fund based Bank Guarantee**	Short-Term	5.00	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4**	-
4	**Non-fund based Forward contract**	Short-term	0.75	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4**	-
5	**Long-term, unallocated amount**	Long-term	0.00	-	-	-	**[ICRA]BB- (Stable)**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – fund based / Cash Credit	Simple
Short term – non fund based – Bank Guarantee	Simple
Short term – non fund based – Forward Contract	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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	14.00	[ICRA]BB+(Stable)
NA	**Bank Guarantee**	NA	NA	NA	5.00	[ICRA]A4+
NA	**Forward Contract**	NA	NA	NA	0.75	[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
IRIS Business Services, LLC, United States of America	100.00%	Full Consolidation
IRIS Business Services (Asia) Pte. Ltd., Singapore	98.36%	Full Consolidation
Atanou S.r.l., Italy	100.00%	Full Consolidation
IRIS Logix Solutions Private Limited, India	76.00%	Full Consolidation

*Source: IBSL annual report FY2022 *Note: ICRA has taken a consolidated view of the parent (IBSL), its subsidiaries and associates while assigning the ratings.*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 020 6606 9922
deepak.jotwani@icraindia.com

Gaurav Kushwaha
+91 22 6114 3465
gaurav.kushwaha@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches