September 24, 2020

Emudhra Limited: Ratings reaffirmed

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); reaffirmed
Long Term - Fund Based - Term Loan	25.00	25.00	[ICRA]BBB (Stable); reaffirmed
Short Term - Non-Fund Based	2.00	2.00	[ICRA]A3+; reaffirmed
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings positively factors in the extensive experience of the promoter in the information technology industry and Emudhra Limited's (Emudhra) established track record of operations 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 through direct sales partners. Emudhra's has also been diversifying revenues in the enterprise solutions segment which has a reputed customer base and a moderate current order book position. The company's diversification and expansion plans across business segments and markets including the overseas through foreign subsidiaries, augurs well for its long-term growth prospects. The ratings also factor in the company's healthy revenue growth in revenues and profits, comfortable capital structure and healthy coverage indicators for FY2020.

The ratings, however, are constrained by Emudhra's modest scale of operations as reflected in its operating income of Rs 116.4 crore and networth of Rs 87.3 crore. Moreover, in FY2021, the company has witnessed shifting of its revenue booking owing to delays in demand season for DSCs. 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 risks related to technology obsolescence risks, cyber security and data management risks. However, ICRA notes that the company is in the process of diversifying its revenue base over the medium term to mitigate the technological and regulatory risks. The above risks apart, the company also faces stiff competition in the DSC segment, despite its strong market share, from other licensed certifying authorities leading to pricing pressures. This apart, Emudhra faces competition from other domestic and international players in the enterprise solutions segment. ICRA also notes that Emudhra has moderate funding requirements in the current year as it is in process of completing its office capex is partly debt funded and also has to redeem its preference share of Rs 7.5 crore in December 2020.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's expectation that Emudhra will continue to benefit from the extensive experience of the promoters, its established market position in the digital authentication market and available license for DSCs till Q3FY2024. Besides, the company's diversification across different products and segments will aid in revenue growth and bottom line of the company.

Credit strengths

Extensive experience of the promoter and established track record of the operations – The company's promoter and the management team have extensive experience in the IT industry. Emudhra has established its brand and is a leading player in the domestic digital authentication market.

Healthy financial risk profile in FY2020 – The company reported a healthy revenue growth of ~15% in FY2020, driven by increase in revenues by 20% from digital signatures division and by 11% from its software services and accessories division. Further, the company's profitability stood healthy as reflected with operating profit margin at 29.3% and ROCE of 29.4% in FY2020. Even though the company incurred sizeable capital expenditure of Rs 23.6 crore in FY2020 which was largely debt funded, the capital structure remained comfortable with gearing at 0.5 times as on March 31, 2020 and the coverage indicators remained healthy with interest cover of 27.4 times, DSCR of 13.3 times and Net Cash Accruals/Total Debt of 71% for FY2020. The working capital intensity increased in FY2020 to 16.3% from 13.8% in FY2020 on account of lockdown of services in March 2020.

The company has generated Rs 18.6 crore of revenues in 4MFY2021. With preference shares of Rs 7.50 crore to be redeemed in December 2020 by Emudhra Limited, the DSCR is expected to moderate deteriorate to 2.1 times in FY2021 and increasing thereafter from FY2022 onwards.

Diversification plans across products segments ans end consumer markrts – DSC is used by individuals, corporates, Government, etc. It finds applications across Government, private, public sector for various purposes. The customer base for this segment is wide and spread across country. Further, the DSCs have validity for one to three years and on expiry, a fresh certificate needs to be obtained. Further, for the enterprise solution segment, the company has established relationships with reputed clients across various industries such as banking, financial services, healthcare, education, manufacturing, Government, etc. These factors apart, the company has started to diversify its operations and has expansion plans across business segments and markets including the overseas through foreign subsidiaries, augurs well for its long-term growth prospects.

Credit challenges

Modest scale of operations despite improvement – The company's scale of operations remained moderate at Rs. 116.4 crore in FY2020, restricting the financial and operational flexibility to an extent. However, the company's majority of revenues come from the software and accessories division where the company plans to diversify in the overseas 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. Further, in the enterprise solutions business, it faces competition from bigger players in the global market. The intense competition results in limited pricing flexibility and bargaining power with the customers.

Liquidity position: Adequate

The cash flow from operations remained healthy in FY2020 on the back of healthy profitability for Emudhra at a consolidated level. The free cash flows also improved despite sizeable capital expenditure and debt repayments in FY2020.

In 4MFY2021, the company has booked revenues of Rs 18.6 crore only, impacted by lockdown in Q1FY2021 and shifting of season for DSC owing to delay in tax filing dates etc. Further, the working cpital cycle elongated owing to build of receivables over the last few months. Thus at present, Emudhra's limit utilisation is high at 85% and the company has limited cash levels on standalone basis. The remaining capital expenditure is expected to be funded through undrawn term loan, covid loan and internal accruals. The company has to redeem Rs 7.5 crore preference shares in December 2020 and has sizeable debt repayment of Rs 3.43 in the year. Expected ramp up in cashflow from operations and the promoter's ability to bring in funds if required provide comfort and lead to adequate liquidity position of the company.

Rating Sensitivities

Positive Triggers- The ratings may be upgraded if the company is able to achieve robust revenue growth on a sustained basis with continuous diversification of its product portfolio while maintaining its healthy profitability.

Negative Triggers- 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.

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	Consolidated financial statements of the issuer.

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).

The subsidiaries of Emudhra Limited include **eMudhra (MU) Limited** which provides services like digital signatures**,** **eMudhra Technologies Limited** which provides solutions and services like authentication solutions, big data analytics, IT and IT enabled services and other services around PKI technologies, **eMudhra Consumer Service Limited** which provides various solutions such as IT and IT enabled services, web enables services, web filling services, web-based payment services, wired/wireless connectivity, internet connectivity, services such as voice mail, chat and collaborating browsing, database and database processing services, **eMudhra DMCC** which is engaged in information technology consultancies, computer systems consultancies, network consultancies, web-design, software house, IT infrastructure, **eMudhra INC**

and emudhra Pte Ltd which provides services like software consultancy and development of other software system and programming activities.

Key financial indicators (audited)

	Consolidated FY2019	FY2020
Operating Income (Rs. crore)	101.0	116.4
PAT (Rs. crore)	16.9	20.7
OPBDITA/OI (%)	29.7%	29.3%
RoCE (%)	27.6%	29.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.7
Total Debt/OPBDITA (times)	0.9	1.2
Interest Coverage (times)	26.3	27.4
DSCR	22.8	13.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: The company has an outstanding rating of BBB (Stable)/A3+ from Brickwork Ratings as on June 27, 2019.

Rating history for last three years

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on March 31, 2020	24-Sep-2020	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 14-Aug-2019	Date & Rating in FY2019 -	Date & Rating in FY2018 -
1	Cash Credit	Long-term	8.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Term Loan	Long-term	25.00	21.46	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
3	Non-fund based	Short-term	2.00	-	[ICRA]A3+	[ICRA]A3+	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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]A3+

Source: Emudhra Limited

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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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