

November 30, 2022

Embee Software Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based working capital	58.80	119.30	[ICRA]BBB+ (Stable), reaffirmed
Long-term/ Short-term – Non-Fund based working capital	55.90	62.40	[ICRA]BBB+ (Stable)/ [ICRA]A2, reaffirmed
Total	114.70	181.70	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation continues to factor in the established operational track record of Embee Software Private Limited (Embee) as an information technology (IT) service provider to reputed institutional clients and relationship with globally renowned vendors in the IT space. The ratings also draw comfort from Embee's strategic engagement with its key supplier, Microsoft. Around 85% of Embee's revenues, over the past few years, has been derived from sales of Microsoft products. ICRA notes that the company's revenues witnessed a steady growth over the past few years and increased by around 57% in FY2022, driven by an increasing sale of cloud-based products. The ratings also consider the steady growth in profits and cash accruals, comfortable level of coverage indicators and return on capital employed due to low fixed capital requirement of the business. The merger process of Embee with its parent/ holding company – Softline Services India Private Limited has already commenced and is expected to be completed in the near term. ICRA would continue to monitor the development and review the company's performance, as and when further clarity emerges.

The ratings, however, are constrained by the limited pricing flexibility due to the competitive nature of the business, which keeps Embee's operating margin under check. The company is also exposed to vendor concentration risk with Microsoft contributing around 85% to Embee's top line. ICRA also notes the entity's high receivable level, which exerts pressure on its liquidity position, and its high total outside liabilities relative to the tangible net worth due to significant dependence on creditors' funding. However, a consistent increase in the credit limit by Microsoft supports the sustainability of such creditors' funding. Going forward, the company's ability to improve its margins, while growing volumes over a modest working capital cycle, will be the key determinants of its financial risk profile.

The Stable outlook on the long-term rating reflects ICRA's opinion that Embee will continue to benefit from its established operational track record and relationship with globally renowned vendors in the information technology space.

Key rating drivers and their description

Credit strengths

Established operational track record and relationship with globally renowned vendors in the information technology space – Embee has an operational track record of more than 30 years as an IT solution provider. It has established working relationships with leading IT vendors like Microsoft, Adobe, Cisco, HP, Epson, Trend Micro, Oracle, SAP, Dell etc. It has long experience in reselling of software and hardware, and as a solution provider to corporate customers.

Steady growth in profits and cash accruals from business over the past few years; comfortable coverage indicators – The turnover of Embee witnessed a steady growth over the past few years, primarily driven by an increasing demand for cloud-based products. The company's revenue from the cloud segment registered a robust growth in the recent years and rose to Rs. 793.70 crore in FY2022 (P) from Rs.121.90 crore in FY2017. The cloud segment contributed around 69% to the company's

turnover in FY2022 (P). While revenues from the infrastructure software segment moderated to around 19% of the company's turnover in FY2022 (P), revenues from the services segment rose to 8% in FY2022 (P) compared to 3% in FY2021. In view of rapid growth in the cloud segment both in terms of new additions as well as renewal, and the company's focus on the services segment, ICRA expects the company's turnover to grow by around 20% in FY2023 compared to FY2022. Overall profits and cash accruals from business have consistently grown over the past years, in line with the increase in the scale of operations. With low debt level and limited interest outgo, the coverage indicators continued to remain at a comfortable level. In view of a likely increase in the working capital borrowings, ICRA expects the debt coverage indicators of the company to moderate marginally in FY2023. However, the same would continue to remain comfortable, going forward.

Strategic engagement with Microsoft strengthens Embee's business profile – Embee generates the major portion (~85%) of its revenues from sale of Microsoft products. The company has been designated as a licensing solutions partner (LSP) of Microsoft for volume licensing of software, which is the highest level of channel partnership that Microsoft offers at the national level. This status helps Embee to sell Microsoft products directly to large institutional customers through Enterprise Agreements (EA). Embee is one of the few LSPs of Microsoft in the country at present. In addition, Embee is also designated as a cloud service provider (CSP) of Microsoft. The company won Microsoft India Area Award 2021 – Cloud Innovation Partner of the Year. The company also won the Microsoft MWP – Partner of the year Award, India 2022. Embee's strategic engagement with Microsoft strengthens its market position and helps expand its customer base. Also, for being a part of the Softline Group, the company is able to get benefits in the form of higher credit without any security coverage (based on global corporate guarantee of the Softline Group).

Credit challenges

Highly competitive business segment; limited pricing flexibility keeps operating margin under check – Competitive nature of the business and trading nature of a significant portion of the revenues limit the company's pricing flexibility, keeping the operating margin under check. Accordingly, the OPM continued to remain range-bound between 3.5-4.5% till FY2020. However, certain one-off expenses as part of the share purchase agreement impacted the OPM and the same moderated to ~2.7% in FY2021 and FY2022 (P). The net margin also stood low at around 1.8% in FY2022 (P). While, the company is gradually improving the high-margin services-related business, the margin is expected to be range bound given the volume-based nature of business.

High receivable level exerts pressure on liquidity – Embee's receivable level remained high in the recent years due to significant credit period offered to its customers and sizeable billings done towards the year end. Moreover, a part of the receivables for project-based revenues has a long recovery schedule post implementation, which increases the receivable level further, exerting pressure on liquidity. These are backed by the credit period offered from vendors and working capital borrowings.

Aggressive capital structure; high total outside liabilities relative to tangible net worth due to substantial creditors funding – The gearing of the company stood low at around 0.6 times, primarily on the back of low reliance on external debt. However, the significant credit availed from the vendors kept the company's total outside liabilities relative to the tangible net worth (TOL/TNW) high at 5.4 times as on March 31, 2022 (3.3 times as on March 31, 2021). A consistent increase in the credit limit by Microsoft supports the sustainability of such creditors' funding.

Liquidity position: Adequate

The company generated positive cash flow from operations over the past two years, supported by healthy cash accruals from the business and decline in the working capital intensity of operations. However, the working capital requirement continued to remain high, which was funded through creditors as well as working capital borrowings. The company's debt repayment obligation remains at a high level. The average utilisation of the working capital limits of the company remained at around 59% during the last 15 months ended in September 2022. In view of surplus cash/ bank balance, undrawn working capital facilities and absence of any planned capital expenditure programme, ICRA expects the overall liquidity position of the company to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade Embee’s ratings if the entity demonstrates a significant improvement in profitability along with a sizeable reduction in receivables, easing the liquidity position.

Negative factors – Pressure on Embee’s ratings may arise if its revenues and profitability decline significantly. Besides, a further stretch in the receivables, exerting pressure on the liquidity position, will also be a credit negative. Specific credit metrics that may trigger ratings downgrade include total debt relative to OPBDITA of more than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Information Technology Hardware-related Services Industry Information Technology – Services
Parent/ Group support	Not Applicable
Consolidation/ Standalone	The ratings are based on the standalone financial statements of the entity

About the company

Incorporated in 1988, Embee Software Private Limited (Embee) was originally promoted by Mr. Sudhir Kothari based in Kolkata. The company started its business as a reselling partner of TCS for IBM Lotus Notes. The company was mainly involved in the packaged software licensing business till 1996 as reselling partners of various companies like Microsoft, Symantec Corporation, Autodesk Inc. etc. Later, the company started hardware reselling business as well. In 2011, the company was awarded the large account reseller (LAR) status by Microsoft for volume licensing business. With Microsoft’s increasing focus on cloud business, the LAR format was discontinued and Embee was designated as a licensing solution partner. It has also been designated by Microsoft as its cloud service provider. Embee mainly acts as an information technology (IT) solution provider to corporate customers through consulting, systems integration, managed services etc. The company won the Microsoft MWP – Partner of the year Award, India 2022. Embee generates the major portion of its revenue from Microsoft products and continues to have strategic tie-ups with other globally renowned principals like Adobe, HP, Cisco, Epson etc.

In FY2021, the Softline Group acquired the majority stake in the company, through its various subsidiaries/ step-down subsidiaries. Softline Services India Private Limited (SSIPL), the Indian arm of the Softline Group, holds a 94.71% stake in Embee at present. The Softline Group is a licensing solution partner of Microsoft at the global level. Embee would be merged with its parent company, SSIPL. The company has already applied for merger to the National Company Law Tribunal (NCLT).

Key financial indicators

	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Provisional)
Operating income	667.8	732.3	1,153.1
PAT	13.0	12.6	20.8
OPBDIT/OI	3.5%	2.7%	2.7%
PAT/OI	1.9%	1.7%	1.8%
Total outside liabilities/Tangible net worth (times)	4.0	3.3	5.4
Total debt/OPBDIT (times)	2.8	2.5	2.1
Interest coverage (times)	2.9	3.8	5.1

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

Source: Embee Software Private Limited, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Nov 30, 2022	Aug 19, 2021	Feb 3, 2021	May 29, 2020	
1 Fund-based working capital	Long Term	119.30	35.78	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2 Non-Fund based working capital	Long Term/ Short Term	62.40	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-
3 Fund-based/ Non-Fund based bank facilities	Long Term/ Short Term	-	-	-	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based working capital	Simple
Long-term/ Short-term – Non-Fund based working capital	Very 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Channel Finance	-	-	-	20.00	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL	-	-	-	13.80	[ICRA]BBB+ (Stable)
NA	Invoice Discounting	-	-	-	20.00	[ICRA]BBB+ (Stable)
NA	Cash Credit/ Invoice Discounting	-	-	-	18.50	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL/ Bill Discounting	-	-	-	30.00	[ICRA]BBB+ (Stable)
NA	Channel Finance	-	-	-	17.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	-	-	22.90	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Bank Guarantee	-	-	-	24.50	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Bank Guarantee	-	-	-	15.00	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Embee Software Private Limited

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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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