September 07, 2023

C-Edge Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term, Non-fund Based Facilities	20.0	20.0	[ICRA]AA- (Stable) / [ICRA]A1+; reaffirmed
Total	**20.0**	**20.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to favourably factor in C-Edge Technologies Limited's (C-Edge) strong parentage and financial flexibility, along with technological and business support arising from being a joint venture (JV) of Tata Consultancy Services Limited (TCS) and State Bank of India (SBI). C-Edge provides core banking solutions (CBS) on an outsourced application service provider (ASP) model to various cooperative banks and regional rural banks (RRBs), wherein it has strong domain expertise as depicted by its healthy market share. In recent years, along with CBS, the company also provides value-added services like internet banking, mobile banking, UPI[1], and other digital services to its customers. The high switching costs of CBS, coupled with value-added service offerings, ensure customer lock-in and repeat revenue for the business. Additionally, the ratings continue to factor in C-Edge's healthy financial profile characterised by healthy operating profitability, comfortable capital structure with a debt-free status along with adequate debt coverage metrics and liquidity position.

The company reported moderate revenue growth of 9% in FY2023 supported by revenue from the ASP segment, continuing to add new digital services along with its CBS model. The OPM remained healthy at 34.4% in FY2023. ICRA expects the company to grow at a moderate rate with healthy margins in the near to medium term, supported by addition of new value-added services and clients.

The ratings are, however, constrained by the limited market size of the CBS business, which remains a key impediment in the scaling up of the company's operations. As some part of C-Edge's revenue is based on the number of branches, any consolidation by the Government of India/ Reserve Bank of India (RBI) for RRBs, public sector banks and cooperative banks may impact its revenue generation, going forward. However, ICRA notes the company's investment in building newer capabilities, especially in loan origination and payment systems, to diversify its revenue base. However, the actual revenue generation from these new capabilities remains to be seen. Additionally, retention and development of talent in the information technology (IT) sector in India, grappling with high attrition, continues to remain a key challenge.

The Stable outlook on the long-term rating reflects ICRA's opinion that C-Edge will continue to benefit from its strong parentage in terms of technical support for its technology and banking domains from both SBI and TCS, enabling its growth.

Key rating drivers and their description

Credit strengths

Strong parent support; strengths arising from being a joint enterprise of TCS and SBI – The company is a 51:49 joint venture (JV) between TCS and SBI, combining their expertise in technology and banking domains.

[1] UPI- Unified Payment Interface

Domain expertise and established market position in ASP-based CBS, coupled with digital offering ensure repeat revenue – The company is a dominant player in the SAAS/ASP-based CBS market, servicing more than 170 banks. C-Edge's customers are RRBs and cooperative banks, who do not have the wherewithal to invest in an on-premises CBS. In recent years, along with CBS, the company also provides value-added services like internet banking, mobile banking, UPI, and other digital services to its customers. The high switching costs of CBS, coupled with value-added service offerings, ensure customer lock-in and repeat revenue for the business.

Strong financial profile characterised by healthy profitability, no external debt, and healthy cash balance - The company's financial profile remains strong as reflected in its high operating profitability (34.4% in FY2023), strong capital structure and healthy liquidity position in the form of unencumbered cash/liquid investment balance of Rs. 263 crore as on March 31, 2023. The company reported moderate revenue growth of 9% in FY2023 and ICRA expects the trend to sustain over the near to medium term. Going forward, the company's coverage metrics are expected to remain strong, supported by healthy internal accrual generation and debt free status.

Credit challenges

Limited market size for ASP business constrains scale of operations, mergers of public sector banks and RRBs, restricting growth potential to an extent – The ASP business for CBS and related services is expected to remain a dominant segment driving C-Edge's revenues, going ahead. As the market size for the ASP-based CBS business is limited, the company's ability to scale-up its revenues further by extending its dominance in the CBS market and penetrating further into other financial solutions would remain a key rating sensitivity. For improving its revenue generating capability from existing clients, C-Edge offers internet banking, mobile banking, UPI, and other digital services. The company is also investing in building newer capabilities to increase its non-CBS revenue stream in the medium to long-term. Moreover, the revenues are vulnerable to the regular consolidation exercise undertaken by the GoI for RRBs across states, and merger of public sector and cooperative banks, resulting in reduction in the total number of branches serviced by C-Edge.

Retention and development of talent in growing IT sector in India, where high attrition remains a challenge – The LTM[2] attrition rate remained high at ~28%, as of March 2023, though lower than FY2022. While the same is expected to decline further over the near term, overall retention and talent development on a sustained basis, remain a challenge for the IT sector in India.

Liquidity position: Strong

The company's liquidity position remains strong, aided by healthy internal accrual generation and unencumbered cash/ cash equivalents of Rs. 263 crore as of March 31, 2023. Moreover, the company's external debt-free structure continues to support its financial flexibility and liquidity profile. Further, the financial flexibility imparted by its strong parentage continues to provide comfort.

Rating sensitivities

Positive factors – ICRA could upgrade C-Edge's ratings if the company is able to significantly scale up its operations, while maintaining its profitability and credit metrics.

Negative factors – Negative pressure on C-Edge's ratings may arise in case of weakening in the credit profile of the parent companies, or if there is considerable decline in scale of operations, profitability or weakening of its liquidity position.

[2] LTM- Last Twelve Months

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (IT) Services Industry
Parent/Group support	ICRA expects C-Edge's parent, TCS (rated [ICRA]AAA (Stable) / [ICRA]A1+), to be willing to extend financial support to it, should it be required.
Consolidation/Standalone	Standalone

About the company

C-Edge is a technology, infrastructure, and services provider to banks in the country. It is a JV company set up by TCS and SBI in January 2006. TCS holds 51% and SBI holds 49% of C-Edge's equity shares. It primarily has two lines of business—(i) core banking solutions and related services on an outsourced ASP model; and (ii) time and material business. Under the ASP business division, C-Edge provides CBS on an outsourced ASP model to enable banks to integrate all branches, with a single view for effective management and control. Under the time and material business division, the company leases out trained IT manpower to companies on contract basis.

Key financial indicators (audited)

C-Edge - Standalone	FY2022	FY2023
Operating income	326.5	355.8
PAT	73.2	85.6
OPBDIT/OI	33.6%	34.4%
PAT/OI	22.4%	24.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	171.5	232.6

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	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 07, 2023	Aug 25,2022	Jun 3, 2021	April 15, 2020
1	**Non-fund-based facilities**	Long term /short erm	20.00	-	**[ICRA]AA- (Stable) / [ICRA]A1+**	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term, non-fund-based limits	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	**Bank Guarantee**	NA	NA	NA	20.00	[ICRA]AA- (Stable) / [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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