October 16, 2023

Comnet Solutions Private Limited: Ratings assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	1.42	1.00	[ICRA]BBB-(Stable); outstanding
Long-term Fund based – Cash Credit	13.00	80.00	[ICRA]BBB-(Stable); outstanding / assigned
Long-term Fund-based limit – Sales Bill Discounting	3.00	0.00	-
Short-term Non-fund Based Limit – Bank Guarantee	5.00	30.00	[ICRA]A3; outstanding / assigned
Unallocated Amount	2.58	4.00	[ICRA]BBB-(Stable) / [ICRA]A3; outstanding / assigned
Total	**25.00**	**115.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Comnet Solutions Private Limited (CSPL) factors in its healthy revenue growth of 35% to Rs. 656.2 crore and increased accrual generation in FY2023, aided by steady inflow and execution of orders primarily from private sector clients. Further, the company had a healthy order book position of ~Rs. 400 crore as on July 31, 2023, which provides revenue visibility for the current fiscal. Coupled with a favourable demand outlook, the growth momentum is expected to continue going forward as well. Nonetheless, timely execution and the ability to sustain its fresh order inflow would remain critical for maintaining its profitability levels. Additionally, the ratings continue to factor in the extensive experience of its promoters in the IT infrastructure industry and its well-established relationship with a reputed client base of public and private sector players.

The ratings, however, remain constrained by the intense competition in the industry, translating into limited pricing flexibility for industry participants such as CSPL. Coupled with the relatively limited value-added nature of operations, this has continued to result in moderate profit margins. Moreover, high dependence on creditor funding, along with working capital bank borrowings, has continued to result in relatively high leverage levels for the company. The Stable outlook on the long-term rating reflects ICRA's opinion that CSPL will benefit from its healthy order book position and favourable demand outlook for the sector driving its revenue growth and accrual generation.

Key rating drivers and their description

Credit strengths

Experienced promoters with more than two decades of experience in the IT industry; alliance with leading IT hardware manufacturers and solution providers – Incorporated in 1997 by Mr. Mangesh Pardeshi and Mr. Sanjay Divekar, CSPL offers end-to-end IT infrastructure solutions and services to public and private sector clients. CSPL's services include setting up enterprise servers, network management, high-end workstations, captive data centres, etc. The extensive experience of promoters in this business has enabled the company to build established relationships with reputed technology partners, including IT hardware manufacturers and solution providers such as Hewlett Packard (HP), Microsoft, IBM, Dell, and Intel, among others. Going forward as well, extensive experience of the promoters and the company's continued association with leading technology partners shall continue to aid its future growth.

Diversified client base of reputed entities – Over the years, CSPL has developed a well-diversified and reputed client base. The company caters to customers in the public as well as private sectors and executes contracts on direct as well as sub-contract basis. Further, CSPL has a pan India presence with its offices in Mumbai, Bengaluru, Delhi, Pune, Goa, Ahmedabad and Chennai.

Healthy order book position provides revenue visibility – CSPL posted healthy top-line growth in FY2022 and FY2023, primarily supported by healthy and growing demand from its corporate sector clientele. The growth momentum is expected to continue in FY2024 as well, supported by favourable demand outlook for the sector and a healthy order book position of ~Rs. 400 crore as on July 31, 2023.

Healthy revenue growth and improved internal accrual generation – CSPL has seen a healthy scale up in its operations in the last two years. Its revenues increased to Rs. 656.2 crore in FY2023 (as per provisional financials) from Rs. 228.4 crore in FY2021 aided by healthy inflow and execution of orders primarily from private sector clients. Increasing contribution from service income and increasing economies of scale have driven the improvement in margins over historical levels. Its operating margins have been in the 8-10% range over the past two fiscals, supporting internal accrual generation. Given the heathy order book position, CSPL is expected to maintain its growth momentum over the near term, while largely sustaining its profit margins.

Credit challenges

Highly competitive intensity of the industry – The Indian IT industry is characterised by intense competition from large and established domestic as well as international players. As the tenders are mainly awarded on competitive pricing, CSPL's profitability stands exposed to intense competition from other companies in the domestic market. The competition exerts pricing pressures and limits its bargaining power to an extent. However, CSPL benefits to an extent from its established operational track record of servicing both public and private sector clients.

Moderate profit margins given its relatively limited value-added nature of operations – Over time, benefitting from the scale up in operations, CSPL has posted an improvement in its margins. Despite the same, profit margins continue to remain moderate, primarily due to the competitive pressure and limited value-addition in its operations. The company's ability to maintain healthy order inflow and timely execution of the same would remain key for sustenance and improvement of margins, going forward.

Relatively high leverage levels – Due to the high working capital intensive nature of business, CSPL's dependence on creditor funding and external borrowings continues to remain relatively high. This has resulted in total outside liabilities/ tangible net worth (TOL/TNW) ratio of 2.6 times as on March 31, 2023. Moreover, the company would be incurring incremental debt of ~Rs. 30 crore for acquisition of new office spaces, which could result in further moderation of its leverage levels. Nonetheless, with the scale up in operations and steady accretions of reserves, CSPL will be able to comfortably meet its repayment obligations.

Liquidity position: Adequate

CSPL's liquidity profile continues to be **adequate** supported by the steady increase in internal accrual generation, free cash/bank of ~Rs. 10 crore as on August 30, 2023, and buffer in the form of undrawn working capital limits. Moreover, CSPL has availed an enhancement in its working capital limits to support its funding needs, given strong growth in its scale of operations and accelerated payments to key vendors to avail discounts. Further, CSPL would be incurring debt-funded capex of ~Rs. 40 crore for its new office spaces over the near term, which is expected to lead to some increase in its debt levels. Nonetheless, expected scale up in operations and steady cash accruals are expected to be sufficient to service its debt obligations and capex plans over the medium term.

Rating sensitivities

Positive factors – ICRA is likely to upgrade CSPL's rating if the company demonstrates sustained revenue growth, while maintaining healthy cash flows and an adequate liquidity position.

Negative factors – Negative pressure on CSPL's ratings could arise if there is considerable decline in revenue and profit margins or stretch in the working capital cycle, exerting pressure on its liquidity position. Specific credit metrics that could lead to a rating downgrade include TOL/TNW higher than 2.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of CSPL.

About the company

Incorporated in 1997 by Mr. Mangesh Pardeshi and Mr. Sanjay Divekar, CSPL is a system integrator specialising in end-to-end IT infrastructure solutions and services. The company is a full-service technology provider specialising in cloud, security, professional and managed services. It is headquartered in Mumbai, with offices in Goa, Pune, Bengaluru, Delhi, Ahmedabad and Chennai.

Key financial indicators

CSPL – Standalone	FY2022 (Audited)	FY2023 (Prov)
Operating income (All lower except first letter and bold)	484.6	656.2
PAT	36.7	48.4*
OPBDIT/OI	10.3%	8.4%
PAT/OI	7.6%	7.4%*
Total outside liabilities/Tangible net worth (times)	2.2	2.6
Total debt/OPBDIT (times)	0.4	1.1
Interest coverage (times)	6.8	9.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
**please note that the PAT stated for FY2023 denotes PBT*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024) Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024		Chronology of rating history for the past 3 years Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 16, 2023	Sept 07, 2023	Dec 22, 2022	Dec 29, 2021	Sept 18, 2020
1	Term loans	Long term	1.0	1.00	**[ICRA]BBB-(Stable)**	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB(Stable)
2	Fund-based – CC	Long term	80.00	-	**[ICRA]BBB-(Stable)**	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB(Stable)
3	Bill Discounting	Long-term	0.00	-	**-**	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB(Stable)
4	Bank Guarantee	Short-term	30.00	-	**[ICRA]A3**	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+
5	Unallocated	Long term/ short term	4.00	-	**[ICRA]BBB-(Stable)/ [ICRA]A3**	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BB+(Stable) /[ICRA]A4+	[ICRA]BB(Stable)/[ICRA]A4+
6	WCDL**	Long term	-	-	**-**	-	-	-	[ICRA]BB(Stable)

*** sub-limit of cash credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term Fund-based – Cash Credit	Simple
Short-term non-fund-based-Bank Guarantee	Very Simple
Unallocated	Not Applicable

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	Term Loan	FY2016	9-10%	FY2024	1.00	[ICRA]BBB-(Stable)
NA	Cash Credit	NA	NA	NA	80.00	[ICRA]BBB-(Stable)
NA	Bank Guarantee	NA	NA	NA	30.00	[ICRA]A3
NA	Unallocated	NA	NA	NA	4.00	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Company

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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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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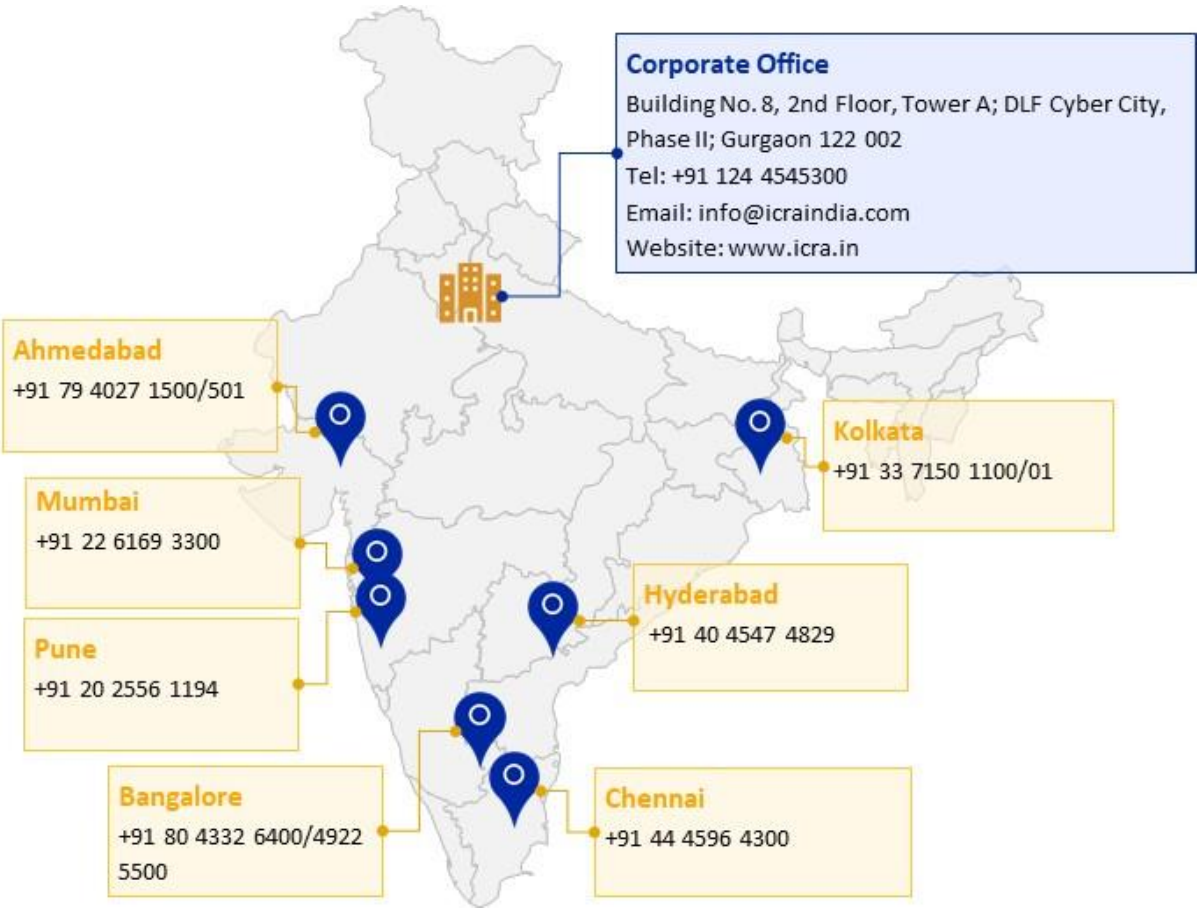

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