January 08, 2024

Kochar Infotech Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loan	6.84	6.84	[ICRA]BBB (Stable); reaffirmed
Long-term – Fund-based – Cash Credit	21.00	21.00	[ICRA]BBB (Stable); reaffirmed
Short-term – Non-fund Based – BG	1.00	1.00	[ICRA]A3+; reaffirmed
Long-term/ Short-term – Unallocated Limits	0.16	0.16	[ICRA]BBB (Stable)/ [ICRA]A3+; reaffirmed
Total	**29.00**	**29.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has considered the consolidated financials of Kochar Infotech Limited (KIL) against the standalone financials considered earlier. ICRA has revised its approach owing to increasing operational and financial linkages between KIL and its subsidiaries. The list of subsidiary companies is enclosed in Annexure II.

The rating reaffirmation of KIL factors in its established operational track record and the extensive experience of its promoters in the digital & process transformation industry. Also, KIL has a reputed client base across diverse end-user industries, namely banking, financial services and insurance (BFSI), e-commerce, and consumer electronics, etc. Moreover, the company has been able to continuously add new clients by enhancing its service offerings. In FY2023, KIL's top line grew by 8.5% to Rs. 148.3 crore. However, some moderation in margins was observed, primarily attributable to increased wage cost stemming from company's focus on people development during the year. Nonetheless, some improvement in margins is expected in FY2024 on account of scaling up of operations. ICRA notes the sizeable capex being undertaken by Maxicus Technologies Private Limited (KIL's subsidiary) towards setting up its delivery centre in Amritsar (Punjab), which once operational in FY2025 is expected to support growth and aid in margin improvement for the group. Some portion of this capex is being funded through debt, which has partly being drawn in FY2023. Despite incremental debt, KIL's capital structure and coverage metrics continue to be adequate, supported by steady internal accrual generation.

The ratings, however, remain constrained by KIL's moderate scale of operations. The intense competition in the IT services industry from a large number of players limits its pricing flexibility to an extent. Also, since KIL derives more than 80% of its revenues from BPO operations, it remains exposed to high service concentration risk. Nonetheless, in the recent years, revenues from the non-BPO segments, namely SaaS & IoT SBUs, have increased which is expected to aid in revenue diversification. Further, it is also exposed to high client-concentration risk, with its top 10 clients accounting for more than 70% of its total revenue in FY2023. Nonetheless, this risk is partly mitigated by the company's long-standing relationships with these industry leading clients, and a gradual moderation of this concentration is anticipated over the medium term, supported by the consistent addition of new clients. KIL is also exposed to wage cost inflation and employee attrition that is inherent to the BPO industry in India.

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from its established track record of operations, a growing customer base and extensive experience of its promoters in the IT services industry.

Key rating drivers and their description

Credit strengths

Established track record of operations and extensive experience of promoters in IT services sector — Incorporated in 1995, KIL has been operating in the IT services industry for nearly three decades, thus having a successful operational track record. It benefits from the strong relationships that it has developed with renowned customers in the BFSI, e-commerce, consumer electronics and telecom sectors. Moreover, Mr. Jitender Jain, the Founder and CMD of the company, has an extensive experience of more than 30 years in the IT services industry. The company will continue to benefit from the strong experience of its promoter and professional managers in the key departments.

Customer base includes reputed players — With a presence of nearly three decades, the company has been able to garner a strong clientele across different sectors. Its customer base includes reputed names like ICICI Bank Ltd., BUNDL Technologies Pvt. Ltd. (Swiggy), Cars24 Services Pvt. Ltd., Airtel Payments Bank Limited, Samsung India Electronics Private Limited, Bharti Airtel Limited, etc. Over years, the company has consistently expanded its clientele as well as service lines.

Adequate capital structure and coverage metrics — Over the years, KIL's capital structure has remained comfortable, supported by steady accruals and relatively lower debt levels. In FY2023, the company's subsidiary incurred significant capex towards setting up a delivery centre in Amritsar. A portion of the same was funded through debt, which led to some increase in its debt levels and moderation in coverage metrics. Despite this, KIL's credit metrics remain comfortable with TOL/TNW of 0.8x, Total Debt/OPBDITA of 2.1x and DSCR of 2.5x for FY2023. The company is expected to maintain a comfortable adequate capital structure and coverage metrices supported by steady accrual generation and no significant increase in its debt levels over the medium term.

Credit challenges

Moderate scale of operations restricts competitive position — With revenues of Rs. 148.3 crore in FY2023, the company continues to be a mid-sized service provider for BPO, SaaS and IoT solutions. Its existing scale of operations remain considerably lower than other major players in the IT-BPO services industry. This constrains its ability to benefit from economies of scale and weighs on its competitive position vis-à-vis large-sized entities. Further, a moderate scale exposes it to risks of business downturn, thereby limiting its ability to absorb a temporary disruption and leverage fixed costs.

Intense competition from large number of players in domestic market and other low-cost countries – Operating primarily in the BPO industry, the company faces stiff competition from several other organised and unorganised players in the domestic market as well as from other low-cost countries. As outsourcing is primarily driven by cost savings, the industry remains competitive with regards to pricing its services. This limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins. Further, the company is exposed to wage cost inflation and employee attrition that is inherent to the BPO industry in India.

High client concentration risk — KIL's top 10 customers generated more than 75% of its overall revenues during FY2023, exposing the company to high client concentration risk. Nonetheless, these entities are established and reputed players in their respective industries, with timely and satisfactory payment track records, which mitigates this risk to some extent.

High service concentration risk with BPO services driving revenues — The company primarily operates in three service lines—BPO, software development and IoT[1]-based solutions, with significant presence in BPO and limited presence in other segments. It derives more than 80% of its revenues from the BPO segment. Any unforeseen impact of alternative technologies on the Business Process Management (BPM) industry can impact the overall scale and margins of the company; though it mitigates

[1] *IoT: Internet of Things*

the risk to an extent via constant technology upgradations, increased revenue contribution from its software business, and increasing focus on diversifying its end-user sectors.

Liquidity position: Adequate

KIL's liquidity profile is adequate, supported by steady internal accrual generation, free cash and investments of ~Rs. 8-9 crore and buffer in the form of undrawn working capital bank lines (~Rs. 9-10 crore) as of December 2023. ICRA notes the sizeable debt-funded capex being incurred by the company's subsidiary towards setting up a delivery centre in Amritsar. Despite the same, KIL's liquidity profile is expected to remain adequate supported by steady accrual generation.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates healthy increase in scale, with improvement in profitability and liquidity profile on a sustained basis.

Negative factors – Significant decline in revenue and profitability on a sustained basis along with a stretched working capital cycle exerting pressure on the liquidity position could lead to a rating downgrade. Specific credit metrics include Total Debt/OPBDITA of more than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Information Software and Services
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Incorporated in KIL, the flagship company of the Kochar Group, was incorporated in 1995 and operates in the realm of digital and process transformation solutions, integrating advanced technology with strategic business process optimization. The company has three distinct SBUs (Strategic Business Units) including Maxicus, KSOFT & IGZY. Maxicus serves as the business process management (BPM) arm. KSOFT is the software solutions division that focuses on digital customer engagement & experience management platforms with SaaS products primarily catering to international markets (20+ countries) serving global telcos & enterprise clients with Etisalat, Vodafone, TATA as some of the marquee clients. IGZY is the latest venture that aims at providing platform based IOT solutions using cutting edge technology solutions like AI & ML targeting enterprise clients across BFSI, Retail & Logistics segments. The unit has already signed up India's leading brands including ICICI, Fincare, Kama etc. The company operates out of six cities in India, namely Amritsar, Mumbai, Gurgaon, Vadodara, Kolkata and Bangalore. The Kochar Group consists of private sector business entities with interests in IT, consulting, BPO/KPO services, and textiles.

Key financial indicators (audited)

KIL Consolidated	FY2022	FY2023
Operating income	136.6	148.3
PAT	9.9	4.4
OPBDIT/OI	12.9%	7.1%
PAT/OI	7.3%	3.0%
Total outside liabilities/Tangible net worth (times)	0.6	0.8
Total debt/OPBDIT (times)	0.8	2.1
Interest coverage (times)	18.0	6.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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 August 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 08, 2024	Nov 28, 2022	Nov 18, 2021	Nov 12, 2020
1	**Term loans**	Long term	6.84	6.84	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Stable)**
2	**Cash Credit**	Long term	21.00	-	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Stable)**
3	**Non-Fund Based-Bank Guarantee**	Short Term	1.00	-	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3**
4	**Unallocated Limits**	Long Term and Short Term	0.16	-	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB- (Stable)/ [ICRA]A3**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term - Cash Credit	Simple
Short-term - Non-Fund Based- BG	Very Simple
Long-term and Short-term - Unallocated Limits	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 Loans**	FY2020	10.20%	FY2028	6.84	[ICRA]BBB(Stable)
NA	**Cash Credit**	NA	NA	NA	21.00	[ICRA]BBB(Stable)
NA	**Bank Guarantee**	NA	NA	NA	1.00	[ICRA]A3+
NA	**Unallocated**	NA	NA	NA	0.16	[ICRA]BBB(Stable)/ [ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	KIL Ownership	Consolidation Approach
Maxicus Technologies Private Limited	100%	Full Consolidation
Kochar Innovation Private Limited	100%	Full Consolidation
Kochiva Private Limited	100%	Full Consolidation
Igzy Technology Private Limited	100%	Full Consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Deepak Jotwani
+91 124 4545870
deepak.jotwani@icraindia.com

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

Rashmi Gole
+91 020 66069917
rashmi.gole@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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.

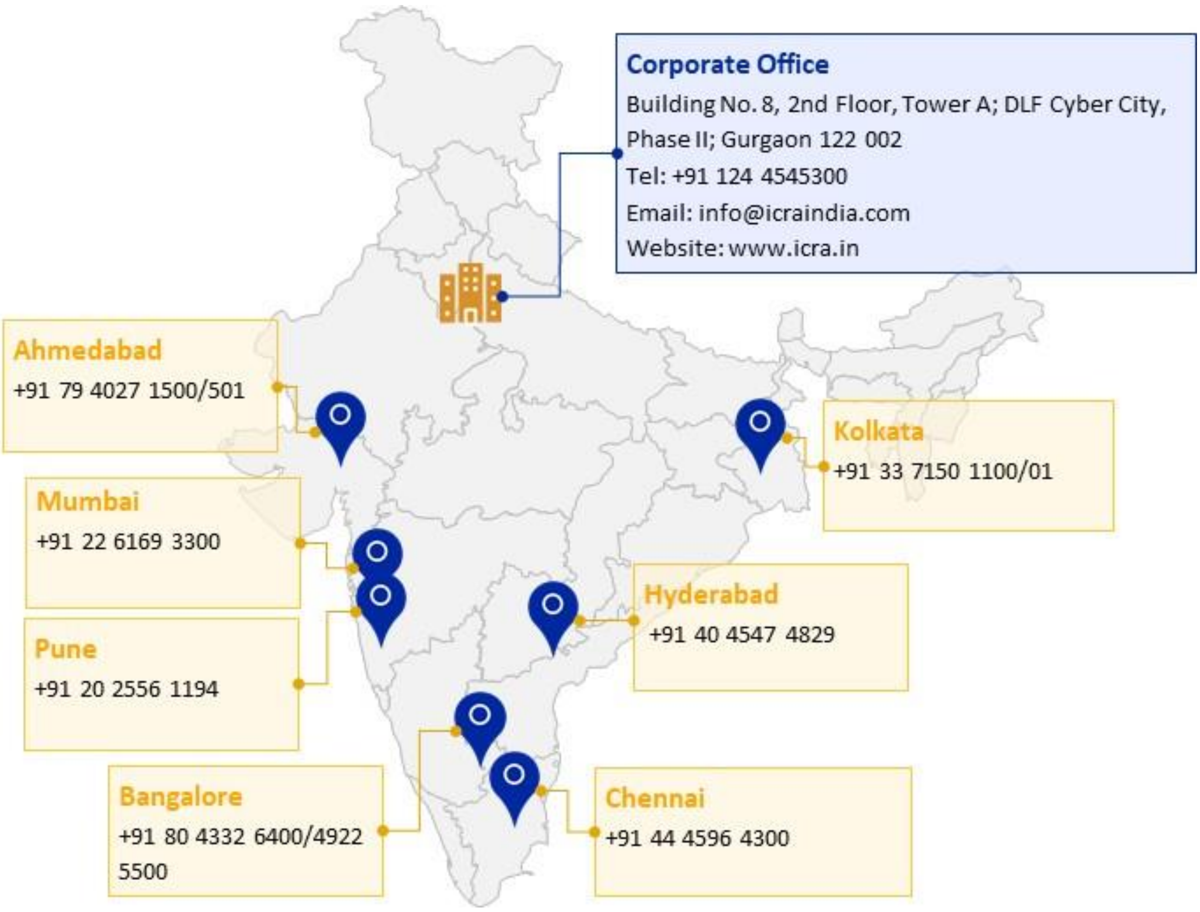
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.