

January 12, 2024

Iris Business Services Limited: Ratings reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	14.00	14.00	[ICRA]BB+; Reaffirmed; Outlook revised to Positive from Stable
Short-Term – Non-Fund Based – Bank Guarantee	5.00	5.00	[ICRA]A4+; Reaffirmed
Short-Term – Non-Fund Based – Forward Contract	0.75	0.75	[ICRA]A4+; Reaffirmed
Total	19.75	19.75	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook on Iris Business Services Limited's (IBSL) ratings reflects ICRA's expectation that the company is likely to report a healthy revenue growth and higher internal accrual generation over the near term. This is expected to be supported by its established business position in the regulatory technology (reg-tech)/supervisory technology (sup-tech) industry, its healthy order book position, stable demand from regulators & enterprises for software solutions for compliance, recent strategic partnership with Prophix (Canada-based compliance solutions provider), and new product rollouts. IBSL reported healthy revenue growth of 20% YoY and 30% YoY in FY2023 and H1 FY2024, respectively, on the back of steady execution of its order book and widening presence across geographies. In addition to the revenue visibility provided by its healthy order book position, the increasing focus on compliance and financial reporting by regulators across the globe will enhance growth opportunities for the company. Steady accrual generation, coupled with low reliance on debt, has continued to result in a comfortable capital structure and coverage metrics for the company. Additionally, the ratings continue to factor in IBSL's established operational track record and extensive experience of its promoters in the industry.

The ratings, however, remain constrained by IBSL's modest scale of operations resulting in limited economies of scale and working capital intensive nature of operations backed by a high receivable cycle. IBSL's operating margins remain vulnerable to competitive pressures in the industry and wage cost inflation, as also demonstrated by moderation in its operating margins in recent years. Additionally, the company's profitability remains susceptible to adverse fluctuations in foreign exchange (forex) on account of considerable revenue contribution from export markets.

Key rating drivers and their description

Credit strengths

IBSL's established operational track record and extensive experience of its promoters in the IT services (reg-tech) sector – IBSL's promoters/senior leadership team have an extensive experience in the reg-tech/sup-tech space. The company primarily provides Software as a service (SaaS) based solutions based on eXtensible Business Reporting Language (XBRL)/other software languages. These are offered to several capital market regulators, financial institutions, and enterprises across the globe, for meeting their regulatory compliance, risk management and reporting requirements.

Well-established relationships with reputed customers across geographies – The company maintains established relationships with reputed organisations for its products/solutions and is in business with Fortune 500 companies as well. Its revenues are well diversified across geographies with domestic sales accounting for 38% of its sales in FY2023, followed by Europe (20%), Africa (13%), Asia Pacific (11%), West Asia (11%) and America (7%). IBSL's geographical presence is also

strengthened by a recent strategic partnership with Prophix, a Canada based compliance solutions provider, which is expected to increase its visibility in North America and Europe.

Comfortable capital structure and coverage indicators – IBSL registered healthy revenue growth in FY2023 and H1 FY2024, supporting its accrual generation. The company's steady accretion to reserves with low leverage levels has resulted in a comfortable capital structure and coverage indicators, as reflected by gearing of 0.2x as on March 31, 2023 (0.2x as on March 31, 2022) and interest coverage of 9.4x in FY2023 (6.7x in FY2022). The credit metrics are expected to remain comfortable in the near to medium term, owing to increasing internal accruals and low funding requirements in the absence of any major planned capex.

Credit challenges

Modest scale of operations – IBSL's scale of operations is modest with revenues of Rs. 73.6 crore in FY2023, resulting in limited economies of scale. IBSL witnessed healthy growth in H1 FY2024 and the momentum is expected to continue over the near term supported by its healthy order book, recently announced strategic partnership and new product developments. However, onboarding new clients amid positive growth prospects in the industry, and continued product enhancement will all remain key for its scale-up.

Working capital intensive nature of operations – The operations of IBSL remain working capital-intensive owing to an elongated receivable cycle. The same remains high due to higher share of revenues with regulators and public sector clients (~45% share of revenues) being its primary customers, while the receivable days are lower for private players. However, IBSL has been able to increase its share of business with enterprises in recent years which is expected to support in further optimisation of its working capital cycle going forward.

Vulnerability of margins to competitive pressures and forex fluctuations – Given the company's modest scale, its profit margins remain vulnerable to competitive pressures in the industry with larger players than itself offering similar services. This is also demonstrated by moderation in its operating profit margins to 11.9% in FY2024, against 13.0% in FY2023, impacted by wage cost inflation and higher marketing expenses for customer outreach. Furthermore, due to the substantial revenue contribution from exports, IBSL remains vulnerable to forex fluctuations. However, it uses forex forward contracts to hedge a part of its exposure, which provides some cushion against the forex risk.

Liquidity position: Adequate

IBSL exhibits **adequate** liquidity position, supported by its steady internal accrual generation, unencumbered cash and liquid investments of ~Rs. 8.9 crore and buffer of Rs. 3-4 crore in working capital limits as on September 30, 2023. The liquidity profile is expected to remain adequate over the near term on the back of improvement in internal accrual generation, no debt repayment liabilities and no major capex plans.

Rating sensitivities

Positive factors – The rating could be upgraded if the company reports healthy growth in scale of operations, while maintaining an adequate liquidity position and coverage indicators.

Negative factors – The rating could be downgraded if the company exhibits deterioration in profitability or a stretched working capital cycle leading to stress on its liquidity position, on a sustained basis.

Environmental and Social Risks

Environmental concerns – Given its service-oriented business, IBSL's direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

Social concerns – Like other Indian IT service companies, IBSL faces the risk of data breaches and cyber-attacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Managing various facets of human capital, including skills, compensation, attrition rate and training, is also a key differentiating factor among IT companies. IBSL's track record on this count has been in line with its mid-sized peers in the industry, which mitigates the human capital-induced social risks.

Analytical approach

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

About the company

Established in 2004, IBSL is engaged in providing compliance, data, and analytics related SaaS solutions to regulators and enterprises globally, to help them comply with regulatory requirements, reduce risks, and improve operational efficiency. The company originally operated as a knowledge process outsourcing (KPO) entity before shifting its business from KPO services to financial instrumentation and research during CY 2014-15. It currently operates through three business segments—“Collect”, “Create” and “Consume” and has been able to position itself as an established player in the reg-tech/sup-tech industry. Headquartered in Navi Mumbai (Maharashtra, India), IBSL's operations are spread across India as well as overseas markets such as the UK, the US, Italy, and South Africa. The company has set up regional offices in Singapore, the US and Italy to cater to regional demands for its products and services.

Key financial indicators (audited)

IBSL – Consolidated	FY2022	FY2023	6M FY2024*
Operating income	61.3	73.6	44.6
PAT	1.0	4.3	2.3
OPBDIT/OI	11.7%	13.0%	11.9%
PAT/OI	1.6%	5.8%	5.2%
Total outside liabilities/Tangible net worth (times)	1.2	1.2	1.1
Total debt/OPBDIT (times)	0.9	0.6	0.7
Interest coverage (times)	6.7	9.4	10.6

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 *Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 12, 2024	Nov 03, 2022	Sept 27, 2021	Oct 01, 2020
1 Fund-based – Cash Credit	Long-term	14.00	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB- (Stable)
2 Non-fund Based – Bank Guarantee	Short-term	5.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4
3 Non-fund Based – Forward Contract	Short-term	0.75	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4
4 Fund-based – Term Loans	Long-term	-	-	-	-	-	[ICRA]BB- (Stable)
5 Unallocated Limits	Long-term	-	-	-	-	-	[ICRA]BB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Short-term – Non-fund Based – Bank Guarantee	Very Simple
Short-term – Non-fund Based – Forward Contract	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	Fund-based – Cash Credit	NA	NA	NA	14.00	[ICRA]BB+ (Positive)
NA	Non-fund Based – Bank Guarantee	NA	NA	NA	5.00	[ICRA]A4+
NA	Non-fund Based – Forward Contract	NA	NA	NA	0.75	[ICRA]A4+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	IBSL's Ownership	Consolidation Approach
IRIS Business Services, LLC, United States of America	100.00%	Full Consolidation
IRIS Business Services (Asia) Pte. Ltd., Singapore	98.36%	Full Consolidation
Atanou S.r.l., Italy	100.00%	Full Consolidation
IRIS Logix Solutions Private Limited, India	50.00%	Full Consolidation

Source: IBSL annual report FY2023.

*Note: ICRA has taken a consolidated view of the parent (IBSL), its subsidiaries and associates while assigning the ratings.

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