May 30, 2024

Epicenter Technologies Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated	5.97	5.97	[ICRA]BBB(Stable); reaffirmed
Short-term Non-fund Based	8.28	8.28	[ICRA]A3+; reaffirmed
Total	**14.25**	**14.25**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in Epicenter Technologies Private Limited's (ETPL's) healthy financial risk profile, characterised by a debt-free capital structure, a strong liquidity position, its established track record, and extensive experience of the management in the business process outsourcing (BPO) industry. On a provisional basis, as on March 31, 2024, the company had unencumbered cash and cash equivalents of more than Rs. 70 crore.

The ratings, however, remain constrained by ETPL's high customer and geographical concentration risks, and declining revenues, as reflected in a sequential moderation in the operating performance in the recent past. The company derived ~70% of its FY2024 revenues from its top three customers, and ~72% of its revenues during this period from the US market. ETPL's revenues contracted to Rs. 123.5 crore in FY2024 from Rs. 149.3 crore in FY2023 with slowdown in requirements of its top three customers in the recent past. The operating profitability moderated partially to 18.0% in FY2024 from 20.6% in FY2023. Additionally, recessionary trends in its key US market pose potential headwinds to growth. ETPL's ability to overcome these challenges and improve its scale of operations and profitability through addition of new customers, or retention/scale-up of existing clients would remain a key monitorable in the near term. The ratings also consider the vulnerability of ETPL's profitability to fluctuations in currency rates, given its export-dominated sales profile and intense competition from other organised as well as unorganised players in the BPO industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company is likely to maintain an adequate financial profile and liquidity position over the near-to-medium term, supported by minimal dependence on external borrowings and cash flows generated from operations.

Key rating drivers and their description

Credit strengths

Established track record of the company and extensive experience of the management in the BPO industry – Incorporated in 2000, ETPL has a long operating track record in the BPO industry with an experienced management team. ETPL's Director, Mr. Rajesh Thankappan, has an extensive experience of nearly two decades in the information technology (IT)/ BPO industry.

Debt-free capital structure, robust debt coverage indicators and comfortable liquidity position – With consistent and healthy addition of accruals to reserves over the last three fiscals, ETPL's net worth stood at Rs. 91.5 crore as on March 31, 2024. On the other hand, ETPL continued to operate debt free. ETPL's debt coverage indicators continued to remain robust, as reflected by its TOL/TNW of 0.5 times as on March 31, 2024, due to its zero debt and healthy profitability levels. Besides, its liquidity profile was supported by free cash and cash equivalents worth Rs. 76.7 crore as on March 31, 2024.

Credit challenges

Consistent decline in revenues, with high reliance on obtaining regulatory licenses – ETPL's revenues has been on a consistent decline since last year and stood at Rs. 123.5 crore in FY2024 (a fall of 17.3% on a YoY basis). In the past, ETPL has been using its principal customer's licence to act as a collector agent, but now with the client entity moving certain operations in-house and opening up its own captive BPO centre, ETPL's revenue has been declining. In FY2024, ETPL has applied for its own collector licence, which is expected to be granted by July, 2024. Any delay or difficulty in the same will lead to loss of revenues from the region and can affect the entity's financial performance significantly, going forward.

High customer and geographical concentration risks – ETPL's customer concentration risk remains high with its top three customers accounting for 81% and 69% of its total sales in FY2023 and FY2024, respectively, although the share from its largest customer has reduced. The US continued to dominate ETPL's revenues, accounting for almost 72% of its total revenues in FY2024. Any loss of business from its key clients or changes in regulations/ policies related to outsourcing by the US Government remain key concerns for ETPL. The risk associated with the client concentration was visible in its performance in FY2023 and FY2024, when reduced requirements from its top three customers resulted in revenues contracting to Rs. 123.5 crore in FY2024 from Rs. 149.3 crore in FY2023, and the operating profit margin (OPM) contracting to 18.0% from 20.6% during this period.

Vulnerability of profitability to fluctuations in foreign exchange rates – About 78% of ETPL's FY2024 revenues came from overseas clients, exposing its profitability to fluctuations in foreign exchange rates. Nonetheless, the company tries to mitigate its forex risk by hedging 50-60% of its net export revenue (through forwards) and the remaining are mostly spot contracts.

Relatively small scale of operations; threat from organised as well as unorganised players – The company's scale of operations remains relatively smaller compared to its peers. ETPL faces stiff competition from large, established as well as small, unorganised companies in the BPO industry. Given the low complexity of the work involved, its pricing flexibility and bargaining power with customers remain limited.

Liquidity position: Strong

ETPL's liquidity position remains strong with unencumbered cash and cash equivalents of Rs. 76.7 crore as on March 31, 2024. This is after making the payment of Rs. 57.47 crore for buyback of shares. ETPL does not have any long-term debt on its books and its capex plans remain minimal at Rs. 3-7 crore in FY2025 as the company plans to open new offices in Columbia and Dubai, which will be funded through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade ETPL's ratings if it exhibits any significant sustained growth in revenues and diversification of its customer base, while maintaining its healthy margin profile. Other factors that may lead to a rating upgrade include a material improvement in its net worth position.

Negative factors – ICRA could downgrade ETPL's ratings in case there is any further reduced order inflow from its key customers resulting in decline in revenues. Additionally, continued pressure on margins or deterioration of working capital cycle on a sustained basis, impacting the liquidity position or debt-funded inorganic or capex related investments that adversely impact credit metrics on a sustained basis, may also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2000, ETPL is a voice-based BPO company providing collection services, query support and sales. The company operates from three different facilities at Bhayander, Thane (Maharashtra), with an employee base of 1,620 as of March 2024. Till FY2018, ETPL was a part of the Kalyani Group, which held a ~56% stake through its two associate companies, BF Investment Limited and Sundaram Trading & Investment Private Limited. However, in FY2019, the Kalyani Group exited ETPL by selling off its stake to one of the existing shareholders, ZBRS Private Limited (ZBRS), promoted by Mr. Rajesh Thankappan. ZBRS is an IT services and support provider. As on March 31, 2022, ETPL was held by ZBRS and Mr. Kenneth Eldred, the co-founder of Ariba Technologies (US), with the former holding a ~72% stake and the rest held by Mr. Eldred and family. However, in FY2024, ETPL bought back the entire share of Mr. Eldred and family (share buyback of Rs. 57.5 crore), leaving Mr. Thankappan as the sole owner of ETPL.

The company offers collection services, which account for the majority of the business, along with query support, sales, order processing, customer services, credit counselling and debt management. The company has acquired some customers in the recent past to which it offers value-added services such as credit counselling and debt management, selling of insurance products for telecom peripherals, generating leads for new product launches and campaigns among others.

Key financial indicators (audited)

ETPL Standalone	FY2023	FY2024*
Operating income	149.2	123.5
PAT	20.3	18.4
OPBDIT/OI	20.6%	18.0%
PAT/OI	13.6%	14.9%
Total outside liabilities/Tangible net worth (times)	0.2	0.5
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	-	-

*Source: Company, ICRA Research; * Provisional numbers; 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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of April 30, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 30, 2024	-	Feb 27, 2023	Nov 23, 2021
1	**Fund-based Cash Credit**	Long term	-	-	-	-	-	-
2	**Non-fund-based**	Short term	8.28	-	[ICRA]A3+	-	[ICRA]A3+	[ICRA]A3+
3	**Unallocated**	Long term	5.97	--	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term non-fund based	Simple
Long-term– 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	**Unallocated**	NA	NA	NA	5.97	[ICRA]BBB(Stable)
NA	**Non-Fund based**	NA	NA	NA	8.28	[ICRA]A3+

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

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

Sahil Udani
+91 02261143469
sahil.udani@icraindia.com

Aman Mundhada
+91 22 6169 3341
aman.mundhada@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

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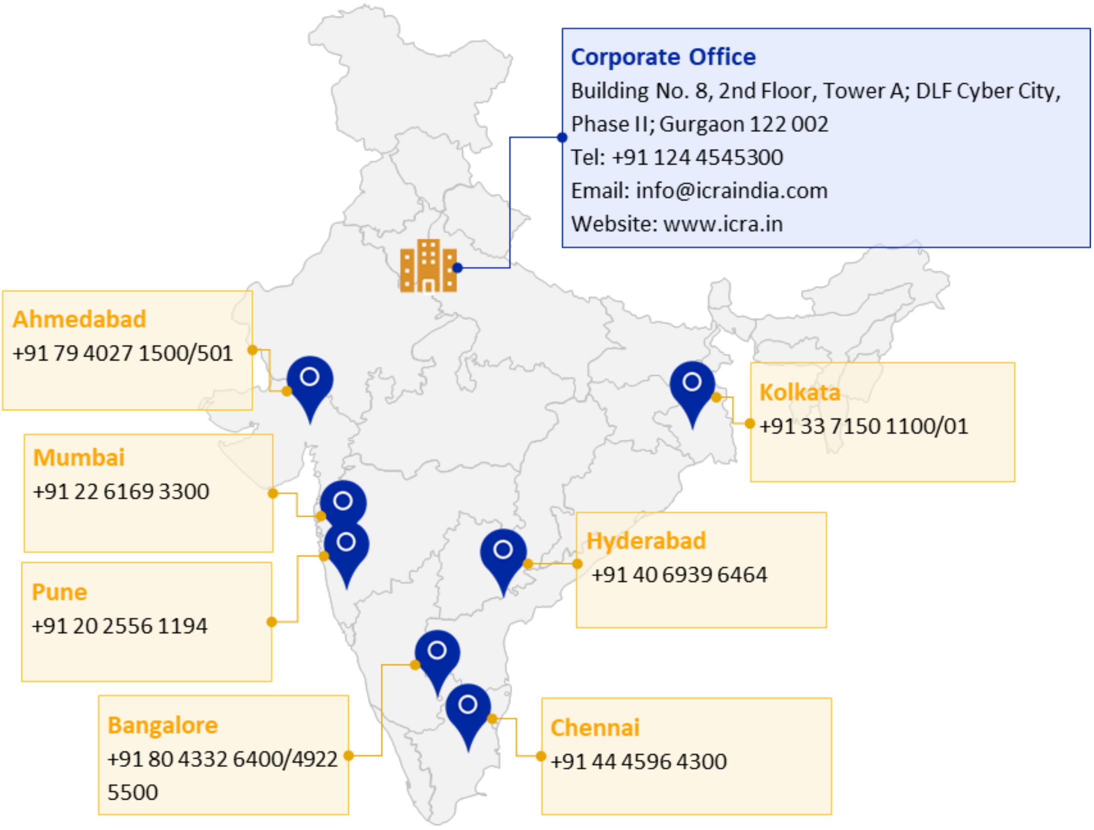
ICRA Limited

Registered Office

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

Branches



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