

June 06, 2024

Emudhra Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Unallocated	35.00	35.00	[ICRA]A- (Positive)/[ICRA]A2+; reaffirmed; outlook revised to Positive from Stable
Total	35.00	35.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook of Emudhra Limited's (eMudhra) long-term rating factors in ICRA's expectation that the company is likely to report a healthy revenue growth and generate higher internal accrual over the near-to-medium term. This is likely to be supported by a steady growth in its two key business segments with a healthy order book for the enterprise solutions business, and increased revenue diversification through expansion of operations in overseas markets, inorganic growth plans and new product rollouts. eMudhra reported a healthy revenue growth of 50% on a YoY basis in FY2024 on the back of increased realisations in the trust services segment, healthy execution of orders in the enterprise solutions segment and increased penetration in global markets. The growth was also partly supported by consolidation of the recently acquired US-based cyber security and IT infrastructure management firm, Ikon Tech Services LLC (ITS)¹. To fund its future product development initiatives, working capital requirements and inorganic growth plans, eMudhra raised Rs. 200 crore through a qualified institutional placement (QIP) in January 2024, further strengthening its net worth position. Besides its healthy accrual generation and negative net debt position, this has continued to result in strong debt protection metrics and a healthy financial profile for the company.

Additionally, the ratings continue to factor in the promoters' extensive experience in the industry, the company's established track record and a leading position as a cyber security-related services provider and certifying authority for issuing digital signature certificates (DSC) in India. Besides, the company has a reputed customer base, which includes large BFSI players, government sector entities and corporates across multiple sectors.

The ratings are, however, constrained by eMudhra's moderate, albeit growing scale of operations, which are also susceptible to intense competition with presence of several DSC issuers/ digital security providers in the Indian and global markets, limiting its pricing flexibility to an extent. However, the company's leadership position in India and its ability to provide comprehensive digital solutions, along with lower cost of delivery compared to its competitors in the US and Europe, provide a competitive advantage, to some extent. Its trust services segment (which generated 28% of the company's revenue in FY2024) is also exposed to any change in the regulatory framework, with respect to the applicability of DSC and any change in the guidelines by the Controller of Certifying Authorities (CCA). A new set of guidelines (Identity Verification Guidelines [IVG]) due to the implementation of the Digital Personal Data Protection Act, 2023 (DPDA) will be implemented by CCA from July 1, 2024 to enhance the security of digital transactions. While this development is not likely to have any adverse impact on eMudhra's trust services business, its ability to adopt these new guidelines in a timely manner without any material cost, remains to be seen. Further, the company remains exposed to technology obsolescence, cyber security and data management risks, given the nature of its business. However, the company's efforts to continually innovate and invest in new product development along with inorganic growth expansion plans are expected to mitigate this risk, to an extent. Moreover, the company has a high receivable cycle as a considerable portion of its revenue is generated from the government sector and export clients for

¹ eMudhra acquired a 51% stake in ITS in Q2 FY2024

the enterprise solution business, resulting in a higher working capital intensity in the recent years. Going forward, eMudhra's ability to sustain its growth momentum without any material elongation of its working capital cycle will remain a key monitorable.

Key rating drivers and their description

Credit strengths

Established position as the leading licensed certifying authority for issuing DSC in India – Incorporated in 2008, eMudhra has been a leading player in the digital security and transformation space with licence by the CCA to issue DSC in India. Its healthy track record of operations, supported by its wide network of controllers or agents across India, resulted in a healthy market share of ~40% in FY2024². The company issued 3.08 million DSCs in FY2024, 4.7% higher than that of FY2023.

Increased diversification of revenues – eMudhra has a diversified revenue stream with presence in two major business segments – digital trust services and enterprise solutions. The digital trust services segment includes sales of token-based DSC and SSL certificates through retail and channel partners, while the enterprise solutions segment includes sales of products/solutions for secure online access (emAS), public key infrastructure (emCA), paperless workflow (emSigner) and certificate life cycle management (emDiscovery) for government entities, BFSI and corporates (for multiple other sectors). While the trust services segment historically generated the major portion of the company's revenue, the enterprise solutions business has grown at a faster pace in the recent years, contributing 72% to the total revenue in FY2024 against 35% in FY2019. Moreover, the company has witnessed strong growth in business expansion outside India, which includes the US, Europe, Africa, Middle East, Far East nations and Indonesia. Its global revenues accounted for 55% of the total revenue in FY2024 against 36% in FY2023. Increasing contribution from the enterprise solutions business and export revenues supported the company's margins and revenue growth in the recent years.

Healthy financial risk profile – eMudhra's financial profile remains healthy, as marked by healthy accrual generation, improving net worth base, comfortable debt protection metrics and liquidity profile. The company's revenue grew by 36% on a YoY basis in FY2023 and by 50% on a YoY basis in FY2024, supported by healthy growth across the segments, expansion of the base business in existing geographies and increased penetration in new markets. Its revenue growth in FY2024 was also supported by the acquisition of US-based cyber security and digital services provider, ITS. The company continues to invest in new product development, which coupled with the steady increase of the base business is expected to drive future revenue growth. Notwithstanding some moderation owing to its higher expenses on strengthening its execution/marketing team in the export market, its operating margins remained healthy at 29.8% in FY2024. The company's financial profile is also supported by its healthy net worth of Rs. 656.3 crore as on March 31, 2024 and its net debt-free status, translating into strong debt protection metrics. Its capital structure and coverage metrics are expected to remain comfortable, given the strong accrual generation and absence of any debt-funded capex.

Credit challenges

Moderate scale of operations – Despite strong revenue growth reported in the past two fiscals, eMudhra's scale of operations remains moderate with revenue of Rs. 373.1 crore in FY2024. Going forward, ICRA expects the company to record a healthy revenue growth, supported by its leadership position in the digital trust services business, a strong order pipeline in the enterprise solution segment, planned product development and inorganic growth plans.

High working capital intensity of the business – eMudhra's working capital intensity remained high, as reflected by net working capital/operating income (NWC/OI) of 33% in FY2024. The high working capital intensity has been driven by the high receivable level in the enterprise solutions segment as a considerable portion of revenue comes from public sector entities

² As per company disclosures

and export market. This has also impacted the cash flow from operations in the past. However, the same has improved in FY2024 on the back of increasing scale and diversification of revenues. Going forward, eMudhra's ability to sustain its growth momentum without any material elongation of its working capital cycle will remain a key monitorable.

Exposed to changes in regulatory framework and technological obsolescence – The company is licensed by the CCA, Ministry of Information Technology, Government of India, and operates under the guidelines set by the Information Technology Act, 2000. This exposes its business to any change in the requirements of CCA. Further, CCA has strict audit requirements, which DSC-certifying authorities are required to follow. The industry is susceptible to risks related to technological changes, competition from substitutes and shifts in customer demand apart from data management and cyber security risks. This necessitates continued investments in technology upgradation. The company's continuous focus towards the enterprise solution segment and investments in product development and further diversifying its revenue mitigate the said risks to an extent.

Competition from other domestic and international players – The company faces competition from other players like Digicert Corporation, Entrust Corporation, Sify Communications Ltd, Capricorn Identity Services Pvt. Ltd, (n) Code Solutions, etc. in the domestic and overseas markets. While intense competition limits pricing flexibility to some extent, eMudhra benefits to some extent from its leadership position in the trust service segment in India and growing presence of its trust services and enterprise solutions business segments globally.

Liquidity position: Adequate

eMudhra's liquidity is **adequate**, supported by a healthy cash flow generation, adequate unencumbered cash and cash equivalents and no long-term debt repayment obligations. As on March 31, 2024, the company had cash/cash equivalent of ~Rs. 251 crore, which includes QIP funds of Rs. 127.5 crore, to be utilised primarily towards inorganic growth initiatives and capex purposes. ICRA expects eMudhra's liquidity to remain adequate, supported by surplus funds available and expected strong internal accrual generation.

Environment and Social Risks

Environmental considerations – The company has a data centre in Bengaluru and a disaster recovery data centre in Chennai. Energy efficiency and sustainable sourcing of power are critical for data centres, which impact the smooth conduct of business operations. The company has invested in energy-efficient infrastructure and equipment to reduce energy consumption in its data centres.

Social considerations – eMudhra faces the risk of data breaches and cyberattacks that could affect the large volumes of customer data that it manages. Any material lapse on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, eMudhra remains exposed to the risk of changes in the regulatory environment in the key markets where it provides its services.

Rating sensitivities

Positive factors – ICRA could upgrade eMudhra's ratings if the company demonstrates strong growth in revenue and earnings, while maintaining its healthy credit metrics and liquidity position without any material elongation of its working capital cycle.

Negative factors – The ratings may be downgraded if there is any considerable pressure on revenue and internal accrual generation due to reasons including adverse regulatory changes, or if there is any increase in the working capital intensity, resulting in weakening of the liquidity position. Specific metrics that could lead to ratings downgrade include Total Debt/OPBITDA higher than 2.3 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology IT - Software & Services
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Emudhra Limited. As of March 31, 2024, Emudhra had ten subsidiaries, which are enlisted in Annexure II.

About the company

Incorporated in 2008, Bengaluru-based eMudhra is a licensed certifying authority involved in issuing digital signature certificates in India under its brand, eMudhra. The company is licensed by the Controller of Certifying Authorities (CCA), Ministry of Information Technology and operates under the guidelines set by the Information Technology Act. Besides issuing digital signatures, it provides various enterprise solutions and services around cyber security like authentication solutions, paperless office solutions, solutions for securing data at rest and in transit. The company also has solutions for Internet of Things and Public Key Infrastructure.

Key financial indicators (audited)

eMudhra - Consolidated	FY2023	FY2024
Operating income	248.8	373.1
PAT	61.2	76.4
OPBDIT/OI	35.1%	29.8%
PAT/OI	24.6%	20.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.1
Total debt/OPBDIT (times)	0.3	0.1
Interest coverage (times)	22.8	37.0

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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				June 06, 2024	June 26, 2023	Oct 7, 2022	Aug 26, 2021
1 Non-fund based	Short-term	-	-	-	-	[ICRA]A2	[ICRA]A2
2 Unallocated	Long-term/ Short-term	35.00	-	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2	-
3 Cash Credit	Long-term	-	-	-	-	-	[ICRA]BBB+ (Stable)
4 Term Loan	Long-term	-	-	-	-	-	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-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	35.00	[ICRA]A-(Positive)/[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	eMudhra's Ownership	Consolidation Approach
eMudhra (MU) Limited	100%	Full Consolidation
eMudhra Technologies Limited	100%	Full Consolidation
eMudhra Consumer Services Limited	100%	Full Consolidation
eMudhra DMCC	100%	Full Consolidation
eMudhra Pte Ltd	100%	Full Consolidation
eMudhra INC	100%	Full Consolidation
eMudhra B.V.	100%	Full Consolidation
PT eMudhra Technologies Indonesia	59.35%	Full Consolidation
Ikon Tech Services LLC	51.00%	Full Consolidation
eMudhra Kenya Ltd	100%	Full Consolidation

Source: eMudhra annual report FY2024

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About ICRA Limited:

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Branches



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