

September 26, 2024

Aparajitha Corporate Services Private Limited: [ICRA]BBB (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Term Loan	65.00	[ICRA]BBB (Stable); assigned
Long Term-Fund Based- OD/CC	40.00	[ICRA]BBB (Stable); assigned
Total	105.00	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the rating, ICRA has consolidated the financial and business risk profiles of Aparajitha Corporate Services Private Limited (ACSPL), its subsidiaries, Diksha Corporate Services Private Limited (DCSPL), Aparajitha Software Services Private Limited (ASSPL) and Simpliance Technologies Private Limited (STPL).

The assigned rating for the debt instruments of ACSPL favourably considers the entity's established presence and track record in providing compliance related services and solutions, vast experience of the management team, and a diversified client base (with ~12% of its operating revenue derived from the top ten customers in FY2024). ACSPL's business profile is strong and is supported by its country-wide presence covering reputed client profiles across industries, well-diversified service offerings, and significant demand potential in the compliance services segment, which has collectively enabled the company to scale up its operations and earnings over the years. The company exited the manpower consultancy vertical in FY2022, post which the Group's revenue declined sharply while the earnings remained intact.

ICRA notes that the company was involved in a few mergers and acquisitions in the recent years. In FY2021, its holding company, Aparajitha Capital Growth Private Limited (ACGPL) merged with ACSPL to derive group synergies, which resulted in some leveraging and erosion of net worth in FY2021. However, with sustained improvement in its earnings coupled with rights issue of Rs. 20.0 crore in FY2024, the entity's net worth improved to Rs. 163.3 crore in FY2024. In the last two years, the company also acquired Simpliance Technologies Private Limited (STPL) for a total consideration of Rs. 114.9 crore and Labour Law Compliances (LLC) service business from Allsec Technologies Limited (ATL) for a consideration of Rs. 22.1 crore (concluded in April 2024).

While these activities are likely to support the plans towards consolidating its position in the end-to-end compliance related services and solutions, the same also resulted in an increase in external borrowings and a reduction in cash reserves in the recent period. The rating also considers the high working capital intensity (~43% in FY2024) due to an elongated receivable period, and vulnerability of earnings to pricing pressure amid competition from other organised and unorganised service providers. ACSPL's ability to sustain its earnings performance while improving its working capital position are key factors to monitor.

The Stable outlook on the long-term rating reflects ICRA's expectation that ACSPL's credit profile will remain supported by its healthy business profile and visibility around revenues and earnings. Further, the outlook underlines ICRA's expectation that the Group's incremental capex or acquisitions will be funded in a way that allows it to maintain its debt protection metrics commensurate with the rating category.

Key rating drivers and their description

Credit strengths

Established presence and track record of promoters – ACSPL was initially promoted by Dr. Bharath Krishna Sankar and Mr. Nagaraj Krishnan. Following transfer of the controlling stake in FY2022, ACSPL is now a part of Xcelerate Pte Limited, a Singapore-headquartered Governance, Risk, and Compliance, and Environmental, Social and Governance entity, which had invested in ACSPL through its Indian subsidiary, Xlsure India Private Limited. ACSPL has more than two decades of experience in the human resource consultancy services and solutions business and operates mainly in providing compliance services and payroll services. ACSPL's long presence in the industry coupled with the vast experience of the management team has supported the entity in providing end-to-end services and garnering competitive position. After its acquisitions in the recent years, its product and service offerings have further improved.

Diversified customer profile – ACSPL's business profile is strong and is supported by its country-wide presence, reputed client base across industries, diversified service offerings, and favourable demand potential. In FY2024, ACSPL's top ten customers accounted for ~12% of its operating income, reflecting a low customer concentration risk. Key customers of the entity include ITC Limited, MRF, Capgemini Technology Services, etc. The company has an established relationship with most of its customers.

Healthy operating margins – Historically, ACSPL's earnings profile has been healthy, given its strong position in the compliance related service offerings. Its margin profile strengthened following its exit from the manpower consultancy vertical in FY2022, even as revenue declined sharply. The operating profit margin expanded to ~36% in FY2024 from 15-18% in the past. The margins are expected to remain stable over the medium term with benefits accruing from improved scale and acquisitions made by the entity in the recent years.

Credit challenges

Debt-funded inorganic acquisitions – ACSPL was involved in a few mergers and acquisitions in the recent years. In FY2021, its holding company, ACGPL, merged with ACSPL, to derive group synergies, which resulted in some leveraging and erosion of net worth in FY2021. However, with sustained improvement in its earnings coupled with rights issue of Rs. 20.0 crore in FY2024, its net worth improved to Rs. 163.3 crore in FY2024. In the last two years, ACSPL also acquired STPL for a consideration of Rs. 114.9 crore and LLC service business from ATL for a consideration of Rs. 22.1 crore (concluded in April 2024). While these activities are likely to support the plans towards consolidating its position in the end-to-end compliance related services and solutions, the same has also resulted in an increase in external borrowings and a reduction in cash reserves in the recent periods. Its ability to achieve material deal wins from the newly acquired businesses while maintaining its debt protection metrics would be monitored. Any large debt-funded acquisition will be a key monitorable.

Working capital intensive operations – ACSPL's working capital intensity is high with net working capital to operating income ratio of 43.5% in FY2024. The overall receivable period (including unbilled revenues) has elongated in the recent years and its receivables over six months as on March 31, 2024, stood at ~15%. With the addition of new businesses, the company expects to improve its receivable position.

Intense competition in fragmented compliance services industry with limited entry barriers – The domestic compliance service industry is a relatively fragmented market with limited entry barriers. While the company's strong business profile gives ACSPL an edge, the inherent competitive pressure limits the entity's pricing flexibility, reducing the scope of margin expansion to some extent. Nevertheless, with improving demand and increasing focus on compliance and the streamlining of labour codes, the penetration of organised sector is likely to increase, auguring well for the company.

Liquidity position: Adequate

The liquidity position of ACSPL is adequate, supported by healthy cash accruals from its operations. ACSPL had generated an NCA of ~Rs. 53.2 crore in FY2024, which is expected to improve further in FY2025. Further, it had cash and liquid investments of Rs. 8.5 crore as on March 31, 2024. Against these sources of cash and term debt for Rs. 21.7 crore availed in the current fiscal towards the acquisition of LLC service business of ATL, the entity has a debt repayment obligation of ~Rs. 22.5 crore in FY2025 and an obligation of Rs. 22.1 crore towards the acquisition mentioned above. Apart from the same, the entity has no major capex planned over the near term.

Rating sensitivities

Positive factors – The rating can be upgraded if there is a healthy and sustained increase in revenues and profitability and an improvement in working capital intensity, leading to a better liquidity position.

Negative factors – The rating could be downgraded if there is a significant decline in revenues and margins, or any debt-funded acquisition that would adversely impact its cash flows.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. Details of the subsidiaries have been given in Annexure-II.

About the company

Incorporated in 2000, ACSPL provides labour law-related compliance and payroll services. ACSPL provides compliance audit services, establishment compliance services, factory compliance services, contract labour compliance services, industrial licensing services, and payroll compliance services to various entities. It is headquartered in Madurai, Tamil Nadu, and has 21 branches across India. ACSPL was initially promoted by Dr. Bharath Krishna Sankar and Mr. Nagaraj Krishnan and more than 70% stake in ACSPL is now held by Xlsure India Private Limited with Xcelerate Pte Ltd, Singapore being the ultimate holding company.

Key financial indicators

Consolidated	FY2023	FY2024*
Operating income	167.3	207.6
PAT	34.3	36.8
OPBDIT/OI	39.0%	36.2%
PAT/OI	20.5%	17.7%
Total outside liabilities/Tangible net worth (times)	1.2	0.8
Total debt/OPBDIT (times)	1.2	1.2
Interest coverage (times)	11.3	10.9

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 year (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	September 26, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund based - term loan	Long term	65.00	[ICRA]BBB (Stable)	-	-	-	-	-	-
Fund based – OD/CC	Long term	40.00	[ICRA]BBB (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based – Term Loan	Simple
Fund Based – OD/CC	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	Term Loan	FY2024	10.25%	FY2028	65.00	[ICRA]BBB (Stable)
NA	OD/CC	NA	NA	NA	40.00	[ICRA]BBB (Stable)

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	Ownership	Consolidation Approach
Aparajitha Corporate Services Private Limited	100.00% (rated entity)	Full Consolidation
Diksha Corporate Services Private Limited	100%	Full Consolidation
Aparajitha Software Services Private Limited	100%	Full Consolidation
Simpliance Technologies Private Limited	92%	Full Consolidation

Source: Company

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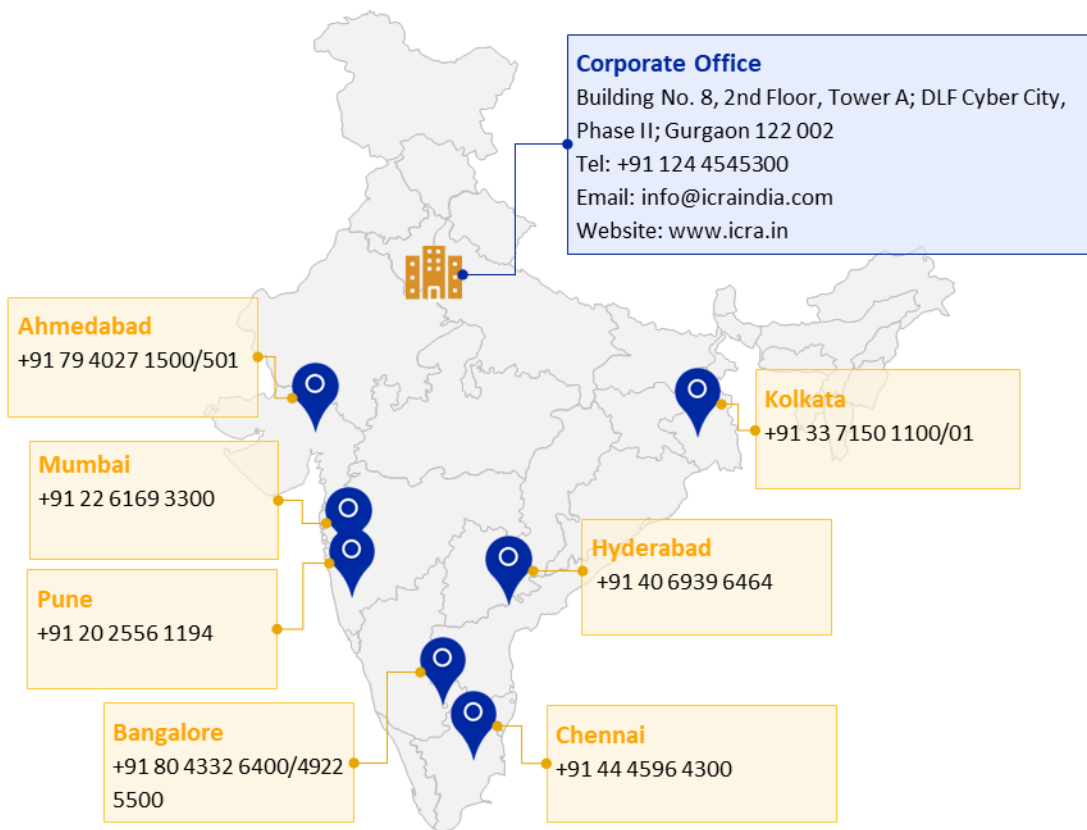
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