October 23, 2024

C-Edge Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term - Non-fund Based Facilities	20.00	0.00	-
Long-term/ Short-term - Non-fund Based – Bank Guarantee	0.00	20.00	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for C-Edge Technologies Limited (C-Edge) favourably factors in its strong parentage and financial flexibility, along with technological and business support arising from being a joint venture (JV) of Tata Consultancy Services Limited (TCS) and State Bank of India (SBI). C-Edge provides core banking solutions (CBS) on an outsourced application service provider (ASP) model, and value-added services like internet banking, mobile banking, UPI[1] etc. to various cooperative banks and regional rural banks (RRBs), wherein it has strong domain expertise as depicted by its healthy market share. The high switching costs of CBS and value-added service offerings ensure customer lock-in and repeat revenue for the business. Additionally, the ratings continue to factor in C-Edge's healthy financial risk profile, characterised by healthy operating profitability, comfortable capital structure with an external debt-free status along with adequate debt coverage metrics and liquidity position. The company reported a healthy revenue growth of 19% in FY2024, supported by increasing traction of its offerings with existing customers, new product developments and addition of new customers. Consequently, it also maintained a healthy operating profit margin (OPM) of 32.2% in FY2024. ICRA expects the company to maintain its growth momentum along with sustenance of its profitability over the near term, supported by order book renewal, new customers and increasing penetration of digital services in the cooperative banking industry.

The ratings are, however, constrained by the relatively moderate size of the CBS business, which remains a key impediment in the scaling up of the company's operations. As some part of C-Edge's revenue is based on the number of branches, any consolidation by the Government of India/ Reserve Bank of India (RBI) for RRBs, public sector banks and cooperative banks may impact its revenue generation, going forward. However, the company's investment in building newer capabilities in the recent fiscals to diversify its revenue base, has supported the growth momentum over the past fiscal. Additionally, retention and development of talent in the information technology (IT) sector in India, grappling with high attrition, continues to remain a key challenge. ICRA also notes the recent supply chain attack on C-Edge, which had impacted the company's data centre. This led to isolation of the impacted systems and a brief halt of payment services to its customers. However, services were restored shortly, following a security review by an independent forensic audit firm and there were no financial implications for C-Edge. Moreover, the company has further strengthened its security systems and continues to invest in IT infrastructure to prevent such instances in the future.

The Stable outlook on the long-term rating reflects ICRA's opinion that C-Edge will continue to benefit from its strong parentage in terms of technical support for its technology and banking domains from both SBI and TCS, enabling its growth.

[1] *UPI- Unified Payment Interface*

Key rating drivers and their description

Credit strengths

Strong parent support; strengths arising from being a JV of TCS and SBI – The company is a 51:49 joint venture (JV) between TCS and SBI, combining their expertise in technology and banking domains.

Domain expertise and established market position in ASP-based CBS, coupled with digital offering ensure repeat revenues – The company is a dominant player in the SAAS/ASP-based CBS market, servicing more than 175 banks. C-Edge's customers are RRBs and cooperative banks, which do not have the wherewithal to invest in an on-premises CBS. In the recent years, along with CBS, the company is also providing value-added services like internet banking, mobile banking, UPI, and other digital services to its customers. The high switching costs of CBS, coupled with value-added service offerings, ensure customer lock-in and repeat revenue for the business.

Strong financial profile characterised by healthy profitability, no external debt, and healthy cash balance – C-Edge's financial profile remains strong, as reflected in healthy revenue growth and strong operating profitability of 19% and 32.2% on a YoY basis, respectively in FY2024. Moreover, its capital structure and coverage position also remain robust, characterised by external debt free status and healthy cash accrual generation. Further, the company continues to maintain a healthy liquidity position in the form of unencumbered cash/liquid investment balance of Rs. 278.5 crore as on March 31, 2024. Going forward, the growth momentum and accrual generation are expected to remain healthy, which are likely to support sustenance of its comfortable credit position.

Credit challenges

Limited market size for ASP business constrains scale of operations, mergers of public sector banks and RRBs, restricting growth potential to an extent – The ASP business for CBS and related services are expected to remain a dominant segment, driving C-Edge's revenues, going ahead. As the market size for the ASP-based CBS business is limited, the company's ability to scale up its revenues further by extending its dominance in the CBS market and penetrating further into other financial solutions would remain a key rating sensitivity. For improving its revenue generating capability from the existing clients, C-Edge offers internet banking, mobile banking, UPI, and other digital services. In the recent years, the company has also invested in building newer capabilities to increase its non-CBS revenue stream in the medium-to-long term. Further, the revenues are vulnerable to the regular consolidation exercise undertaken by the GoI for RRBs across states, and merger of public sector and cooperative banks, resulting in reduction in the total number of branches serviced by C-Edge.

Retention and development of talent in growing IT sector in India, where high attrition remains a challenge – The last twelve month (LTM) attrition rate remained high at ~20%, as of March 2024. While the same is expected to remain stable in the near term, the overall retention and talent development on a sustained basis, remain a challenge for the IT sector in India.

Liquidity position: Strong

The company's liquidity position remains strong, aided by healthy internal accrual generation and unencumbered cash/ cash equivalent of Rs. 278.5 crore as of March 31, 2024. Moreover, the company's external debt-free structure continues to support its financial flexibility and liquidity profile. Further, the financial flexibility imparted by its strong parentage continues to provide comfort.

Rating sensitivities

Positive factors – ICRA could upgrade C-Edge's long-term rating if the company is able to significantly scale up its operations, while maintaining its profitability and credit metrics.

Negative factors – Pressure on C-Edge's ratings may arise in case of weakening in the credit profile of the parent companies, or if there is a considerable decline in the scale of operations, profitability or weakening of its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology IT - Software & Services
Parent/Group support	ICRA expects C-Edge's parent, TCS (rated [ICRA]AAA (Stable)/[ICRA]A1+), to be willing to extend financial support to it, if required.
Consolidation/Standalone	Standalone

About the company

C-Edge is a technology, infrastructure, and services provider to banks in the country. It is a JV company set up by TCS and SBI in January 2006. TCS holds a 51% and SBI holds a 49% of C-Edge's equity shares. It primarily has two lines of business—(i) core banking solutions and related services on an outsourced ASP model; and (ii) time and material business. Under the ASP business division, C-Edge provides CBS on an outsourced ASP model to enable banks to integrate all branches, with a single view for effective management and control. Under the time and material business division, the company leases out trained IT manpower to companies on a contractual basis.

Key financial indicators (audited)

C-Edge – Standalone	FY2023	FY2024
Operating income	355.8	422.9
PAT	85.6	94.8
OPBDIT/OI	34.4%	32.2%
PAT/OI	24.1%	22.4%
Total outside liabilities/Tangible net worth (times)	0.2	0.3
Total debt/OPBDIT (times)	0.1	0.2
Interest coverage (times)	232.6	65.7

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

	Current rating (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	23-OCT-2024	Date	Rating	Date	Rating	Date	Rating
Long term / short term-others-non fund based	Long Term/ Short Term	-	-	07-SEP-2023	[ICRA]AA-(Stable)/ [ICRA]A1+	25-AUG-2022	[ICRA]AA-(Stable)/ [ICRA]A1+	03-JUN-2021	[ICRA]AA-(Stable)/ [ICRA]A1+
Long term / short term-bank guarantee-non fund based	Long Term/ Short Term	20.00	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term - Non-fund-based – Bank Guarantee	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	**Long-term/ Short-term - Non-fund based limits (Bank guarantee)**	NA	NA	NA	20.00	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

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

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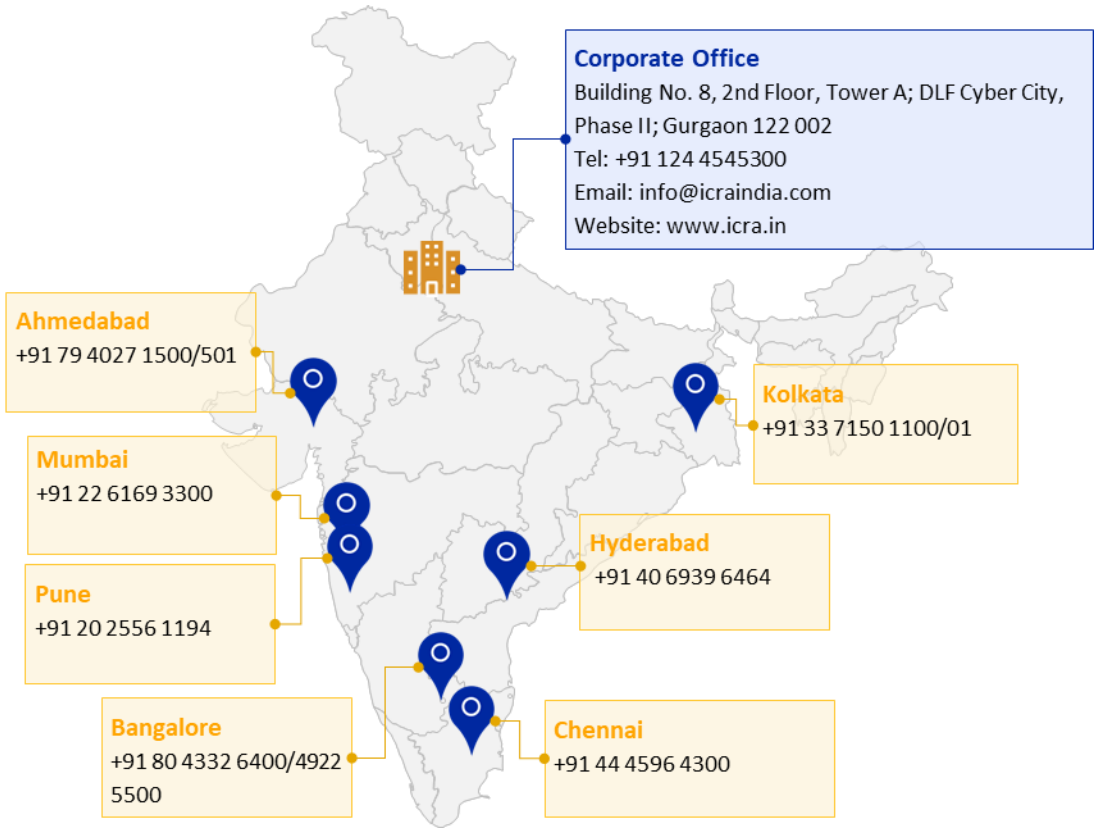

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