January 24, 2025

Comnet Solutions Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term Loan	1.00	1.00	[ICRA]BBB- (Stable); reaffirmed
Long-term fund-based – Cash Credit	80.00	80.00	[ICRA]BBB- (Stable); reaffirmed
Short-term non-fund based limit – Bank Guarantee	30.00	30.00	[ICRA]A3; reaffirmed
Unallocated amount	4.00	4.00	[ICRA]BBB- (Stable)/ [ICRA]A3; reaffirmed
Total	**115.00**	**115.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Comnet Solutions Private Limited (CSPL) factors in in the extensive experience of its promoters in the IT infrastructure industry and its well-established client base of public and private sector entities. Driven by healthy order inflows from private sector companies, expansion in its customer base along with increase in orders from Government entities, the company's revenues grew YoY by 26.2% to Rs. 835 crore at a consolidated basis. Further, the company had a healthy order book position of ~Rs. 585.3 crore as on November 30, 2024, which provides revenue visibility for the current fiscal. Coupled with a favourable demand outlook, the growth momentum is expected to continue going forward as well. Nonetheless, timely execution and the ability to sustain its fresh order inflow would remain critical for maintaining its profitability levels.

Despite this, the ratings remain constrained by the working capital-intensive nature of operations of CSPL, characterised by a high receivable period. ICRA notes the significant increase in the pending receivables of more than 180 days as on November 30, 2024 to Rs. 94.2 crore, majority of which pertains to Government-related entities. ICRA understands that the same is expected to be recovered fully by March 2025, which remains a key monitorable. CSPL's leverage levels also remain high, marked by high reliance on creditor funding to support operations as evident by the high ratio of total outside liabilities vis-à-vis tangible net worth. ICRA notes that this ratio typically peaks in Q4, which is the highest revenue generating quarter for the company and is marked by high receivables. The ratings also remain constrained by the intense competition in the industry, translating into limited pricing flexibility for industry participants such as CSPL. Its profit margins also remain moderate due to relatively limited value-added nature of operations.

The Stable outlook on the long-term rating of [ICRA]BBB- reflects ICRA's opinion that CSPL's revenues will grow at a healthy rate driven by its current adequate order book and expected new orders as it expands its customer base. Coupled with limited capex plans, this will lead to gradual improvement in leverage and debt coverage indicators.

Key rating drivers and their description

Credit strengths

Experienced promoters with more than two decades of experience in the IT industry; alliance with leading IT hardware manufacturers and solution providers – Incorporated in 1997 by Mr. Mangesh Pardeshi and Mr. Sanjay Divekar, CSPL offers end-to-end IT infrastructure solutions and services to public and private sector clients. CSPL's services include setting up enterprise servers, network management, high-end workstations, captive data centres, etc. The extensive experience of its promoters in this business has enabled the company to build established relationships with reputed technology partners, including IT hardware manufacturers and solution providers such as Hewlett Packard (HP), Microsoft, IBM, Dell, and Intel, among others. Going forward as well, the extensive experience of its promoters and CSPL's continued association with leading technology partners shall continue to aid its future growth.

Diversified client base of reputed entities – Over the years, CSPL has developed a well-diversified and reputed client base. The company caters to customers in the public as well as private sectors and executes contracts on direct as well as sub-contract basis. Apart from catering to large IT players and banks, it also takes orders from public sector entities, which is poised to grow in coming years. Further, CSPL has a pan India presence with its offices in Mumbai, Bengaluru, Delhi, Pune, Goa, Ahmedabad and Chennai.

Healthy revenue growth, robust order book position provides revenue visibility– CSPL posted healthy top-line growth of 26.2% in FY2024; and its revenues increased to Rs. 835.0 crore in FY2024 from Rs. 661.7 crore in FY2023, primarily supported by healthy and growing demand from its corporate sector clientele. The company has managed to achieve improvement in operating margins by controlling operational expenses. Its operating margins have been in the 8.5-10.5% range over the last three years, supporting internal accrual generation. The company's net worth has grown from ~Rs. 24 crore in FY2021 to ~Rs. 150 crore in FY2024. The growth momentum is expected to continue in FY2025 as well, supported by favourable demand outlook from the private and public sectors and a healthy order book of ~Rs. 585.3 crore as on November 30, 2024.

Credit challenges

Working capital intensive nature of business; high leverage levels – The business of the company is working capital intensive in nature, due to its high receivable period. CSPL generally offers a credit period of 90-120 days to its customers, which often gets stretched, especially in the case of Government clients. ICRA notes the significant increase in the pending receivables of more than 180 days as on November 30, 2024 to Rs. 94.2 crore, majority of which pertains to Government-related entities. ICRA understands that the same is expected to be recovered fully by March 2025, which remains a key monitorable. CSPL's leverage levels also remain high, marked by high reliance on creditor funding to support operations as evident by the high ratio of total outside liabilities vis-à-vis tangible net worth. While gearing remained low at 0.9 times, CSPL's TOL/TNW remained elevated at 3.0 times as on March 31, 2024. ICRA notes that this ratio typically peaks in Q4, which is the highest revenue generating quarter for the company and is marked by high receivables. The same, however, reduces in subsequent months, in line with the rating category.

Highly competitive intensity of the industry – The Indian IT industry is characterised by intense competition from large and established domestic as well as international players. As the tenders are mainly awarded on the basis of competitive pricing, CSPL's profitability stands exposed to intense competition from other companies in the domestic market. The competition exerts pricing pressures and limits its bargaining power to an extent. However, CSPL benefits to an extent from its established operational track record of servicing both public and private sector clients.

Moderate profit margins given limited value-added nature of operations – Over time, benefitting from the scale up in operations, CSPL has posted an improvement in its margins. Despite the same, profit margins remain moderate, primarily due to the competitive pressure and limited value-addition in its operations. CSPL's ability to maintain a healthy order inflow and timely execution of the same would remain key for sustenance and improvement of margins, going forward.

Liquidity position: Adequate

CSPL's liquidity profile continues to be adequate supported by the steady increase in internal accrual generation and buffer of ~Rs. 30.4 crore in the form of undrawn working capital limits as on October 2024. To support the increased scale of operations, CSPL has enhanced its working capital lines from Rs. 38 crore as on April 2023 to Rs. 110 crore as on October 2024. The average utilisation of the same had remained at 72% during the last 12 months ending in October 2024. Recently in December 2024, CSPL secured additional enhancement of Rs. 20 crore in cash credit limits and Rs. 30 crore in bill discounting limits (for a specific project expected to be executed in February/March 2025). Against this, the company has Rs. 4.9 crore and Rs. 4.2 crore of debt repayments in FY2025 and FY2026, respectively.

Rating sensitivities

Positive factors – ICRA is likely to upgrade CSPL's rating if the company demonstrates sustained revenue growth, while maintaining healthy cash flows and an adequate liquidity position.

Negative factors – Negative pressure on CSPL's ratings could arise if there is considerable decline in revenue and profit margins or stretch in the working capital cycle, exerting pressure on its liquidity position. Specific credit metrics that could lead to a rating downgrade include TOL/TNW higher than 2.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CSPL. As on March 31, 2024, CSPL had four subsidiaries, whose details are shared in Annexure II.

About the company

Incorporated in 1997 by Mr. Mangesh Pardeshi and Mr. Sanjay Divekar, CSPL is a system integrator specialising in end-to-end IT infrastructure solutions and services. The company is a full-service technology provider specialising in cloud, security, professional and managed services. It is headquartered in Mumbai, with offices in Goa, Pune, Bengaluru, Delhi, Ahmedabad and Chennai.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	661.7	835.0
PAT	28.7	57.0
OPBDIT/OI	8.6%	10.2%
PAT/OI	4.3%	6.8%
Total outside liabilities/Tangible net worth (times)	3.2	3.0
Total debt/OPBDIT (times)	1.1	1.5
Interest coverage (times)	9.5	5.5

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 (FY2025)					Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Jan 24, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	1.00	[ICRA]BBB- (Stable)	-	-	07-sept-2023	[ICRA]BBB- (Stable)	22-Dec-2022	[ICRA]BBB- (Stable)	29-Dec-2021	[ICRA]BB+ (Stable)
			-	-	-	16-oct-2023	[ICRA]BBB- (Stable)	-	-	-	-
Fund-based – CC	Long term	80.00	[ICRA]BBB- (Stable)	-	-	07-sept-2023	[ICRA]BBB- (Stable)	22-Dec-2022	[ICRA]BBB- (Stable)	29-Dec-2021	[ICRA]BB+ (Stable)
			-	-	-	16-oct-2023	[ICRA]BBB- (Stable)	-	-	-	-
Bill Discounting	Long-term		-	-	-	07-sept-2023	[ICRA]BBB- (Stable)	22-Dec-2022	[ICRA]BBB- (Stable)	29-Dec-2021	[ICRA]BB+ (Stable)
			-	-	-	16-oct-2023	-	-	-	-	-
Bank Guarantee	Short-term	30.00	[ICRA]BBB- (Stable)	-	-	07-sept-2023	[ICRA]A3	22-Dec-2022	[ICRA]A3	29-Dec-2021	[ICRA]A4+
			-	-	-	16-oct-2023	[ICRA]A3	-	-	-	-
Unallocated	Long term/ short term	4.00	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	07-sept-2023	[ICRA]BBB- (Stable)/ [ICRA]A3	22-Dec-2022	[ICRA]BBB- (Stable)/ [ICRA]A3	29-Dec-2021	[ICRA]BB+(Stable) /[ICRA]A4+
			-	-	-	16-oct-2023	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term Fund-based – Cash Credit	Simple
Short-term non-fund-based-Bank Guarantee	Very Simple
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	Term Loan	FY2016	9-10%	FY2024	1.00	[ICRA]BBB-(Stable)
NA	Cash Credit	NA	NA	NA	80.00	[ICRA]BBB-(Stable)
NA	Bank Guarantee	NA	NA	NA	30.00	[ICRA]A3
NA	Unallocated	NA	NA	NA	4.00	[ICRA]BBB-(Stable)/ [ICRA]A3

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
Lightforce Buildint Private Limited	50%	Equity Method
Datta Infrastructure Private Limited	70%	Equity Method
Techageis Infosolutions Private Limited	60%	Equity Method
Great Worxs Solutions Private Limited	60%	Equity Method

Source: Company data

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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