March 03, 2025

Nihilent Limited: Rating upgraded to [ICRA]BBB (Stable) for Issuer rating; assigned to NCD programme

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Issuer Rating	-	-	[ICRA]BBB (Stable); upgraded from [ICRA]BBB-(Stable)
Non-convertible debenture programme	-	205.0	[ICRA]BBB (Stable); assigned
Total	-	205.0	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade factors in the expected improvement in Nihilent Limited's (Nihilent's) revenues and profitability over the near term, aided by its widening customer base, geographical expansion and reduction in cost absorption led by better use of technology and information technology (IT) driven solutions. This, coupled with the expectations of no material increase in debt over the near-to-medium term, will improve Nihilent's credit profile. ICRA also notes the completion of the merger of Arcalis Technologies Private Limited (ATPL, the parent company of Nihilent) with Nihilent, following the approval of the scheme of amalgamation from NCLT[1] in January 2025. After the amalgamation, all the assets and liabilities of ATPL, including NCDs[2], have been transferred to Nihilent. Further, Nihilent prepaid the NCDs of Rs. 120.0 crore and accrued interest of Rs. 55.0 crore in February 2025, leading to a reduction in the total outstanding debt to Rs. 205.0 crore from Rs. 325.0 crore at the time of the initial issue. This has also resulted in some improvement in the company's leverage. ICRA also notes the adequate liquidity position of Nihilent, supported by steady cash flow generation and free cash and liquid investments of ~Rs. 155 crore as on February 14, 2025, which would aid the company in meeting its repayment obligation of Rs. 108.3 crore in June 2026. Moreover, ICRA expects the company to maintain adequate funds for servicing its debt obligations in the near-to-medium term and the same shall remain a key monitorable.

The ratings continue to derive comfort from the extensive experience of Nihilent's promoters and senior management in the consulting, analytics and IT solutions & services industry. Despite being a relatively small-sized IT services company, Nihilent has diversified presence and serves multiple customers (including reputed corporates) across verticals such as BFSI[3], media & entertainment, manufacturing, retail, and healthcare. The company's revenue diversification is supported by its established presence in South Africa, which drove around 46% of its 9M FY2025 revenues, and its strong presence in other countries including India (21%), the UK (12%), Australia (10%) and the US (9%).

ICRA expects the company's FY2025 revenue growth to remain modest on account of some delay in the launch of new products, but steady offtake from new and existing customers, expansion into other geographies and new product launches in Q1 FY2026 are expected to support its revenue growth and accrual generation over the near-to-medium term. Nihilent's operating profit margins (OPM) have also followed a downward trend in the past few years because of its relatively higher exposure towards the South African market (which has exposed the company to depreciation in South African ZAR vis-à-vis INR), wage cost inflation in the recent years, higher attrition rates and intense competition of the industry. In addition, lower

[1] *National Company Law Tribunal*
[2] *Non-convertible debentures*
[3] *BFSI – Banking, Financial Services and Insurance*

discretionary spending by clients amid persistent macro-economic headwinds and a constrained management bandwidth on account of the takeover from previous investors and the amalgamation of ATPL with Nihilent have also impacted the company's revenue growth, and in turn, its earnings over the past few years. However, the cost-efficiency measures undertaken by the company are expected to result in some improvement in its profitability over the near-to-medium term, as also visible in the increase in its OPM to 14.6% in Q3 FY2025 (as per provisional figures) from 10.0% in FY2024.

Over the years, the company has diversified geographically, with South Africa contributing around 46% to Nihilent's 9M FY2025 revenues, against 68% in FY2019. However, a significant presence in South Africa continues to expose the company to any adverse policy change in this region. Further, with a strong presence in international markets, the company is exposed to volatility in foreign exchange (forex) rate.

The Stable outlook on Nihilent's rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters in the industry and established relationships with its customers, which will support revenue growth and accrual generation over the near to medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the IT services Industry – Nihilent's Promoter and Co-founder, Mr. L.C. Singh, has an experience of more than five decades in the industry, having worked with leading IT services companies such as Tata Consultancy Services Limited[4] and Zensar Technologies Limited[5]. The promoters are supported by a management team with considerable track record in consulting, analytics, and IT solution & service industry, which has helped drive the company's growth over the years. As a part of the succession planning, the promoters have also roped in the next generation, who have taken key positions in the company.

Diversified presence across verticals with reputed customer base – The company has a diversified presence across verticals such as BFSI, media & entertainment, manufacturing, retail and healthcare, and services multiple customers, which include reputed corporates across these verticals. Nihilent has been able to forge strong client relationships across geographies, as visible by its long relationship of more than a decade with most of its key customers, which are reputed companies, giving repeat orders to Nihilent.

Adequate financial profile – Nihilent's financial profile is supported by steady cash accruals and adequate liquidity, reflected in free cash and liquid investments of ~Rs. 155 crore as on February 14, 2025. The coverage and leverage indicators had moderated in FY2024 on account of the issue of NCDs worth Rs. 325.0 crore by ATPL, with TD/TNW of 4.3 times and TD/OPBDITA of 6.6 times as on March 31, 2024. However, the metrics are expected to improve significantly with the prepayment of NCDs of Rs. 120.0 crore in February 2025. Further, Nihilent has no near-term scheduled repayment obligation, and its available liquidity is sufficient to fund its next repayment of Rs. 108.3 crore due in June 2026.

Credit challenges

Moderate scale of operations and profit margins owing to intense competition in the industry – With revenues of Rs. 532.5 crore in FY2024 and Rs. 390.8 crore in 9M FY2025 (as per provisional financials), the scale of Nihilent is moderate, relative to the size of the industry. Moreover, its OPM moderated in the recent years (10% in FY2024 against 17.4% in FY2020) on account of relatively higher exposure towards the South African market (which has exposed the company to depreciation in South African ZAR vis-à-vis INR), wage cost inflation and intense competition in the industry. Lower spending by clients on account of macroeconomic headwinds and a constrained management bandwidth also impacted the company's performance in the recent years. However, Nihilent has continued to make investments in developing capabilities in new technology platforms

[4] *rated [ICRA]AAA (Stable)/[ICRA]A1+*

[5] *rated [ICRA]AA+(Stable)/[ICRA]A1+*

and strengthening its business teams. With the completion of amalgamation of ATPL with Nihilent and the expected launch of its new products in Q1 FY2026, the company is expected to witness a steady growth in its revenues, going forward. Moreover, the cost efficiency measures being implemented by the company, including renegotiation of contracts and the rationalisation of indirect and variable costs, are expected to aid the gradual improvement in its profitability, as also demonstrated by the improvement in its OPM to 14.6% in Q3 FY2025 (as per provisional figures) from 10.0% in FY2024.

Company remains exposed to employee attrition, wage inflation and forex fluctuations – Intense competition in the IT industry exposes Nihilent's profit margins to pricing pressure and wage inflation. Further, a significant portion of the revenues and margins is exposed to forex risks, although the company's hedging mechanism mitigates the same to some extent. As it is present in a highly employee-centric business, availability and retention of a skilled workforce remain key challenges for the company.

Exposed to policies and macroeconomic environment in key operating markets – Nihilent derives a significant portion of its revenues from South Africa (46% in 9M FY2025). The UK, Australia and the US also contribute meaningfully to its revenues. This exposes the company to the macroeconomic uncertainties and any adverse regulatory/ legislative changes in South Africa and the other key markets.

Liquidity position: Adequate

Nihilent's liquidity is **adequate**, supported by steady accrual generation and unencumbered cash and liquid investments of ~Rs. 155.0 crore, as on February 14, 2025. Following part prepayment of its NCDs and accrued interest of Rs. 175.0 crore in February 2025, the repayment obligations of the company over the near term have reduced, with no repayment due in FY2026 and Rs. 108.33 crore due in FY2027. Nihilent's capex requirements have also remained modest with expectations of no major debt-funded capex over the near-to-medium term. Thus, ICRA expects Nihilent's cash accruals and available liquidity to be sufficient to meet its obligations in the near-to-medium term.

Rating sensitivities

Positive factors – The rating could be upgraded if the company reports steady increase in revenues and improvement in profit margins, while maintaining comfortable credit metrics and liquidity profile on a sustained basis.

Negative factors – The outlook on the rating could be revised to Stable or the rating could be downgraded if there is a significant pressure on revenues and earnings, thus weakening the debt servicing indicators and liquidity position of the company. A specific credit metric that could lead to rating downgrade includes Net Debt/OPBITDA of more than 2.5 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 rating, ICRA has considered the consolidated financials of Nihilent (including its subsidiaries as mentioned in Annexure II) and ATPL.

About the company

Nihilent was incorporated on May 29, 2000, as a private limited company and was converted into a public limited company on September 10, 2015. Nihilent is a consulting, advisory solution company leveraging technology to transform businesses. The company is involved in digital innovation using capabilities such as data analysis, deep learning, machine learning, artificial intelligence (AI) and Generative AI, producing creative content, including advertising, animation, etc.

ATPL owned a 70.2% stake in Nihilent till January 2025 and was owned by Mr. L.C. Singh (a 99.9% stake) who is also the co-founder of Nihilent. NCLT approved the amalgamation of ATPL with Nihilent in January 2025, after which all the assets and liabilities of the company were transferred to Nihilent. Mr. LC Singh owns a 38.9% stake of Nihilent after the amalgamation.

Key financial indicators (audited)

Nihilent (Consolidated)	FY2023	FY2024*
Operating income	543.6	532.5
PAT	31.4	13.0
OPBDIT/OI	12.3%	10.0%
PAT/OI	5.8%	2.5%
Total outside liabilities/Tangible net worth (times)	0.3	5.4
Total debt/OPBDIT (times)	0.4	6.6
Interest coverage (times)	29.9	3.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortization

**Based on ICRA's consolidation of financial statements of Nihilent and ATPL*

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					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	March 03, 2025	Date	Rating	Date	Rating	Date	Rating
NCDs	Long Term	205.0	[ICRA]BBB (Stable)	-	-	-	-	-	-
Issuer	Long Term	-	[ICRA]BBB (Stable)	Feb 7, 2024	[ICRA]BBB- (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Issuer Rating	Not applicable
Non-convertible debentures	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	**Issuer Rating**	NA	NA	NA	-	[ICRA]BBB (Stable)
INE0QK907023	**NCDs**	Dec-2023	13.6%	Dec-2029	120.0	[ICRA]BBB (Stable)
INE0QK907015	**NCDs**	Dec-2023	13.6%	Apr-2027	85.0	[ICRA]BBB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Nihilent's Ownership	Consolidation Approach
Arcalis Technologies Private Limited	-	Full Consolidation
Seventh August IT Service Private Limited	100%	Full Consolidation
Intellect Bizware Services Private Limited	100%	Full Consolidation
Nihilent Inc.	100%	Full Consolidation
Nihilent Australia Pty Ltd.	100%	Full Consolidation
Nihilent Nigeria Ltd.	51%	Full Consolidation
BPA Technologies Private Limited	100%	Full Consolidation
Nihilent Employee Welfare Trust	-	Full Consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 12 4454 5870
deepak.jotwani@icraindia.com

Gaurav Kushwaha
+91 40 4547 4829
gaurav.kushwaha@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

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.

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For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches