

Onward Technologies Limited ^{Revised}

January 03, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	4.0	4.0	[ICRA]BBB-(Stable); Upgraded from [ICRA]BB+(Stable)
Fund-based - Working Capital Facilities	13.0	13.0	[ICRA]BBB-(Stable); Upgraded from [ICRA]BB+(Stable)
Total	17.0	17.0	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade favourably takes into consideration the improvement in profitability of Onward Group in H1FY2019 on back of company's strategic move of focusing on more remunerative projects and discontinuing the less remunerative ones, thereby recording notable jump in margins in H1FY2019, compared to full year FY 2018. The company had recorded suppressed profitability in H2FY2018 due to few such projects, however with timely discontinuation of the same, and engaging resources in other profitable ones, the cashflow was improved in subsequent quarters – Q1FY2019 and Q2FY2019 – which further reflected positively in improvement in profitability in H1FY2019. The rating continues to take into consideration the long-standing experience of promoters in the IT services industry and their well-established relations with key customers resulting into repeat orders and revenue visibility. The company is operational in the engineering research and development (ER&D) field which is growing significantly on back of higher demand for industrial automation and digitization. The company has significant geographic diversification with presence in the domestic market as well as overseas markets such as US, UK and Germany.

The ratings are however constrained by modest scale of operations of OTL in the Engineering Research & Development (ER&D) industry which is characterized by presence of large scale players, the client concentration risk with its top five clients contributing to ~40% revenue in H1FY2019 and exposure to currency movement risk, with considerable exposure to foreign currency sales.

Outlook: Stable

ICRA believes OTL will continue to benefit from the extensive experience of its promoters in the IT services industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Long-standing experience of promoters in the IT services industry – The promoters of Onward Group have over three decades of experience in the IT services industry which has led to the company establishing its presence in the market especially in the ER&D industry.

Geographic diversification with presence in domestic as well as overseas markets - OTL is operational in the domestic market as well as the overseas markets such as US, UK and Germany. Presence across different geographies safeguards company's revenues against risks pertaining to any geography.

Well established relations with reputed clientele leading to repeat ordering and revenue visibility – OTL has developed well established relations with reputed clientele over the years. Such established business relations, has led to repeat orders and also provide revenue visibility to the company.

Improvement in profitability in H1FY2019 on back of discontinuation of projects – OTL recorded suppressed profitability in Q3FY2018 and Q4FY2018 as the group was involved in certain projects which were straining the cashflow. The company undertook a strategic decision of discontinuing these projects and writing them off in order to utilize the resources in other remunerative ones. As a result, the group showed improvement in profitability in Q1FY2019 and Q2FY2019, which further reflected positively in improved profitability of OTL (consolidated) in H1FY2019 as compared to FY2018. The operating profit of OTL (consolidated) improved from 4.6% (FY2018) to 8.3% (H1FY2019) while the net profit improved from 2.7% (FY2018) to 3.0% (H1FY2019).

Presence in the ER&D field characterized by growing demand – OTL is primarily engaged in the ER&D field which is growing significantly on back of higher demand for industrial automation and digitization. OTL is expected to leverage from the growth prospects of ER&D field in the domestic as well as overseas markets.

Credit challenges

Moderate scale of operations – OTL is operational in the ER&D field which is characterized by presence of large scale players. The company competes with the ER&D divisions of such large-scale players which often benefit from economies of scale due to their scale of operations.

Exposed to moderate client concentration risk – OTL stands exposed to client concentration risk with its top five clients contributing ~40% revenue in H1FY2019. However, company's well-established relations with its key clients provide some comfort against the said risk. Amid competition, the ability of the company to source projects from existing as well as prospective clients which generates adequate returns will be critical from the profitability as well as cash flow perspective.

Exposed to currency movement risk – OTL is inherently exposed to currency movement risk with its presence in the overseas markets. Any adverse movement in forex could therefore affect the profitability of the company. However, the company has entered into forward contracts to safeguard its forex exposure which is expected to provide some comfort against the said risk.

Liquidity Position:

OTL continues to exhibit adequate liquidity position on back of continual increase in accruals over the years and absence of any long-term debt. The working capital utilization of OTL has remained at an average of ~81% over the last 12 months providing requisite cushion. The group had cash and cash equivalents of Rs. 3.5 crore as on September 30, 2018 and reported positive retained cash flows in H1FY2019.

Analytical Approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (Services) Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on the consolidated financial statements of Onward Group which includes Onward Technologies Limited and Onward eServices Limited.

About the company:

Incorporated in year 1991, Onward Technologies Limited (OTL) is engaged in the fields of engineering design services and IT outsourcing. The company has its presence in the Indian market as well as overseas markets such as US, UK and Germany. OTL along with its overseas subsidiaries (Onward Technologies GmbH, Germany and Onward Technologies Inc., USA) focuses on providing engineering services while Onward eServices Limited (OESL), another subsidiary of OTL, offers IT and staffing solutions and majorly operates in the domestic market.

Key financial indicators (Consolidated, Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	223.6	244.5
PAT (Rs. crore)	4.1	6.7
OPBDIT/OI (%)	5.0%	4.6%
RoCE (%)	14.7%	15.0%
Total Debt/TNW (times)	0.6	0.5
Total Debt/OPBDIT (times)	2.3	2.0
Interest coverage (times)	4.0	3.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep-18 (Rs. crore)	Date & Rating January 2019	Date & Rating August 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Term Loan	4.00	0.20	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-	-	-
2	Cash Credit	13.00	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	June 2013	11.0%	March 2022	4.00	[ICRA]BBB-(Stable)
NA	Cash Credit	NA	NA	NA	13.00	[ICRA]BBB-(Stable)

Source: Onward Technologies Limited

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

Corrigendum

Rating rationale dated January 3, 2019 has been corrected with revisions as detailed below:

Analytical Approach section on Page 3 – The field “Parent/Group Support” in the Analytical Approach table has been reworded as “Not Applicable”.

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