

CMS IT Services Private Limited ^{Revised}

January 07, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Working Capital Facilities	40.0	36.0	[ICRA]BBB-; rating reaffirmed and removed from Watch with Developing Implications; outlook revised to Stable
Non-fund Based - Working Capital Facilities	80.0	80.0	[ICRA]A3; rating reaffirmed and removed from Watch with Developing Implications
Fund Based/ Non-fund Based - Interchangeable	20.0	20.0	[ICRA]BBB-/[ICRA] A3; rating reaffirmed and removed from Watch with Developing Implications; outlook revised to Stable
Total	140.0	136.0	

*Instrument details are provided in Annexure-1

Rationale

In December 2017, ICRA had placed ratings of the company under watch with developing implications following the proposed change in shareholding pattern wherein 56.7% stake in CMS was expected to be transferred from Blackstone Group to Florintree Advisors. Currently, the watch is removed as ICRA does not expect the aforementioned change in parentage to have any material impact on the credit profile of the company.

The reaffirmation of the ratings factors in the extensive experience of the management, spanning over 15 years in the information technology (IT) industry. The ratings also consider CMS IT Services Private Limited's (CMS) improving revenue profile supported by a moderately diversified customer base comprising large reputed players across domains such as telecom, banking & financial services, manufacturing, etc. The ability of the company to move up the value chain by undertaking deals in areas such as system integration provides revenue visibility. CMS witnessed an improvement in its financial profile with the top line expanding by 6.4% YoY in FY2018, supported by healthy traction in its margin-accretive services segment, which grew by 13.4% YoY. Operating margins also improved to 1.7% in FY2018 from -0.7% in FY2017 supported by higher contribution from margin-accretive services segment. The financial profile is characterised by a comfortable capital structure and moderate coverage indicators with TD/OPBITDA as well as interest by finance charges of 1.7 times as on March 31, 2018. CMS continues to focus on improving its debtor days, which improved to 96 in FY2018 and 89 days in H1 FY2019 from 110 in FY2017 supported by faster collections. Going forward, the absence of any term loan and debt-funded capex plan is expected to support the company's financial profile. During H1 FY2019, the company's revenues declined by 20.4% YoY on account of product revenue shortfall of 67.8%, while its margin-accretive services segment grew by 17.5% YoY in H1 FY2019 supported by addition of new logos.

The ratings are constrained by CMS's small scale of operations in a highly competitive industry marked by large players, thereby constraining pricing flexibility to a certain extent. Although the operating margins expanded in FY2018, they remained thin at 1.7%. Further, the company's working capital intensity remained stretched with ~22% (Rs. 23.8 crore) of the total receivables being greater than six months as on Mar 31, 2018. The company's average fund-based and non-fund based working capital utilisation for the 12-month period ending September 2018 was high at 77% and 90%, respectively. However, for 12-months period ending in March 31, 2018, fund-based utilization improved to 69% from 79% in 12-months ending in March 31, 2017. CMS had cash balance of Rs. 4.5 crore as on Sep 30, 2018, out of which ~Rs. 3.5 crore is earmarked as margin money for non-fund-based limits utilization, indicating tight liquidity position for the company to some extent.

Outlook: Stable

ICRA believes that CMS will continue to benefit from the extensive experience of its management, its diversified customer base and its focus on expanding its margin-accretive services segment. The outlook may be revised to Positive if the company witnesses a substantial increase in its revenue and expansion in its margins, thereby leading to strong cash accruals. The outlook may be revised to Negative if the cash accrual is lower than expected, or if any major debt-funded capital expenditure or acquisition or further increase in working capital utilisation weakens liquidity.

Key rating drivers

Credit strengths

Operations supported by experienced management team - The company continues to be supported by its management team, which has extensive experience in the industry, aiding CMS in competing against much larger and established players.

Improving contribution from margin-accretive services segment - With its focus on expanding the margin-accretive services segment, CMS grew this segment by 13.4% YoY in FY2018 by securing deals in areas such as system integration. The company is moving up the value chain and provides consultancy services to its customers, wherein it understands the requirements of its customers and installs servers or other high-end equipment to meet the same. It also oversees the operation and maintenance of the same. However, CMS's operating margins remained thin at 1.7% in FY2018.

Healthy order book supports business prospects - The company continues to win orders from its existing customers and secured orders worth Rs. 405 crore in FY2018. As on October 31, 2018, CMS had an order book position of Rs. 116 crore, providing revenue visibility going forward.

Financial profile characterised by comfortable capital structure and coverage indicators - With total debt of Rs. 12.2 crore (consisting of only working capital limits) and net worth of Rs. 88.3 crore, the company maintains healthy capitalisation metrics. CMS has moderate coverage indicators with EBITDA/finance charge of 1.7 times and total debt/EBITDA at 1.7 times during FY2018. With no debt-funded capex going forward, CMS is expected to maintain its comfortable capital structure and coverage indicators.

Credit challenges

Small scale of operations in a highly competitive industry - The IT industry and the vertical in which the company operates are characterised by several large players, thereby constraining the pricing flexibility of the company to a certain extent. The company has a relatively small scale of operations (top line was ~Rs. 418.6 crore in FY2018), constraining its ability to secure large orders to some extent. However, the company was able to add some reputed names like Pepsi Co, Bharti Airtel, etc to its customer base during FY2018 and H1 FY2019. With CMS moving up the value chain and securing more margin-accretive orders, it is expected to improve its scale and margins going forward.

Moderately diversified customer profile - CMS's customer profile includes reputed companies and financial institutions across domains such as banking and financial services, telecom, manufacturing, etc. The company has a moderately diversified customer base with the top five customers contributing ~38% to its revenues in FY2018. centre services, etc, to its customers.

High working capital utilisation - While the company continues to reduce its debtor days, working capital intensity remains high with a high debtor cycle. The debtor days are typically high on account of delays in payment from the company's government customers. Receivables in more than six months category declined from Rs. 26.1 crore as on March 31, 2017 to Rs. 23.8 crore as on March 31, 2018. The company's working capital utilisation for the 12-month period ending September 2018 was high with average fund-based and non-fund-based utilisation (consisting of performance guarantees) of 77% and 90%, respectively. The cash balance also remained low at Rs. 4.5 crore as on September 30, 2018, of which Rs. 3.5 crore was margin money.

Financial profile characterised by weak profitability and stretched cash flows - In FY2018, CMS witnessed positive operating and net profit margins for the first time since its inception in 2015. While operating margins and net profit margins expanded to 1.7% and 0.2%, respectively, in FY2018, they remained low. Margins turned negative in H1 FY2019 (1.8 % in H1 FY2018) following weaker-than-expected revenues. The nascent stage of operations and high employee costs are affecting CMS's profitability and cash flows. While free cash flow stood at Rs. 4.3 crore in FY2018, it was a negative Rs. 18.9 crore in H1 FY2019 due to the negative operating margins. Going forward, CMS is expected to witness improvement in its profitability and cash flow position with further stabilisation of its operations and higher margin-accretive deals.

Liquidity position

CMS has sanctioned fund-based and non-fund based working capital limits of Rs. 23 crore and Rs. 77 crore, respectively. However, the average utilisation of fund-based and non-fund-based limits was high at 77% and 90%, respectively, for the 12-month period ended September 2018. The company's cash balance stood at a low level of Rs. 4.5 crore as on September 30, 2018, with ~Rs. 3.4 crore of the same being earmarked for non-fund-based margins.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in information technology industry
Parent/Group Support	-
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company. CMS does not have any subsidiaries.

About the company

CMS IT Services Private Limited, initially a part of CMS Info Systems Private Limited (rated [ICRA]AA(Stable)/[ICRA]A1+), was hived off into a separate company in January 2015. CMS is a small-sized IT/ITeS company, which primarily provides IT infrastructure services including end-user support, managed IT services, mobility services, system integration and data centre services, focusing mainly on the domestic market. The company's service offering ranges across domains such as BFSI, retail, manufacturing, hospitality and pharmaceutical among others. With about 7,500 employees spread over in India, the company caters to a large base of over 400 customers. CMS also has a branch in USA.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	393.1	418.6
PAT (Rs. crore)	-8.6	0.7
OPBDIT/OI (%)	-0.7%	1.7%
RoCE (%)	-3.2%	4.6%
Total Debt/TNW (times)	0.2	0.1
Total Debt/OPBDIT (times)	-7.5	1.7
Interest Coverage (times)	-0.6	1.7

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018				Date & Rating in FY2017
				January 2019	December 2017	November 2017	August 2017	-	-
1 Cash Credit	Long Term	36.0	-	[ICRA]BBB- (Stable)	[ICRA]BBB-; put on Watch with Developing Implications	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
2 Letter of Credit & Bank Guarantee	Short Term	80.0	-	[ICRA]A3	[ICRA]A3; put on Watch with Developing Implications	[ICRA]A3	-	-	-
3 Fund-based/ Non-fund based	Long Term/ Short Term	20.0	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB-/ [ICRA]A3; put on Watch with Developing Implications	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-

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	Cash Credit 1	24.07.2015	NA	NA	5.0	[ICRA]BBB- (Stable)
NA	Cash Credit-2	08.09.2017	NA	NA	11.0	[ICRA]BBB- (Stable)
NA	Cash Credit-3	30.06.2016	NA	NA	10.0	[ICRA]BBB- (Stable)
NA	Proposed - fund based	-	NA	NA	10.0	[ICRA]BBB- (Stable)
Total					36.0	
NA	Letter of Credit & Bank Guarantee-1	24.07.2015	NA	NA	20.0	[ICRA]A3
NA	Letter of Credit & Bank Guarantee-2	08.09.2017	NA	NA	18.0	[ICRA]A3
NA	Letter of Credit & Bank Guarantee-3	30.06.2016	NA	NA	35.0	[ICRA]A3
NA	Letter of Credit & Bank Guarantee-4	10.01.2017	NA	NA	3.0	[ICRA]A3
NA	Proposed Non-fund Based	-	NA	NA	4.0	[ICRA]A3
Total					80.0	
NA	Long-term/Short-term Fund Based Non-fund based - Interchangeable	-	NA	NA	20.0	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: CMS IT Services Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
-	-	-

Source: Company

Corrigendum

Document dated Jan 7, 2019 has been corrected with revision as below:

Revision on page no. 1, we have added the following paragraph in rationale section.

In December 2017, ICRA had placed ratings of the company under watch with developing implications following the proposed change in shareholding pattern wherein 56.7% stake in CMS was expected to be transferred from Blackstone Group to Florintree Advisors. Currently, the watch is removed as ICRA does not expect the aforementioned change in parentage to have any material impact on the credit profile of the company.

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