

August 14, 2019

## Emudhra Limited: Ratings assigned

### Summary of rating action

| Instrument*                          | Current Rated Amount<br>(Rs. crore) | Rating Action                |
|--------------------------------------|-------------------------------------|------------------------------|
| Long Term - Fund Based - Cash Credit | 8.00                                | [ICRA]BBB (Stable); assigned |
| Long Term - Fund Based - Term Loan   | 25.00                               | [ICRA]BBB (Stable); assigned |
| Short Term - Non-Fund Based          | 2.00                                | [ICRA]A3+; assigned          |
| <b>Total</b>                         | <b>35.00</b>                        |                              |

\*Instrument details are provided in Annexure-1

### Rationale

The assigned ratings positively factor in the extensive experience of the promoter and the management team in the information technology industry and Emudhra Limited's (Emudhra) established track record of operations as a licensed certifying authority for issuing digital signature certificate (DSC) in India. The ratings take into account the company's healthy market share in the DSC segment, supported by its wide sales and distribution network across the country. Emudhra's revenues are supported by its presence in the enterprise solutions segment. The ratings factor in the company's healthy financial profile as reflected by healthy profitability margins, comfortable capital structure and healthy coverage indicators for FY2019. The ratings derive comfort from its diversified customer and user industry base, along with its established relationships with reputed customers for the enterprise solutions segment.

The ratings, however, are constrained by Emudhra's modest scale of operations, despite an improvement in FY2019. The business is susceptible to changes in the regulatory framework, with respect to applicability of DSC and any changes in the guidelines by the Controller of Certifying Authorities (CCA), the regulatory body for certifying authorities in India. The company remains exposed to risks related to technology obsolescence risks, cyber security and data management risks. As such, it would be required to continuously invest in upgrading its technology to keep up with the regulatory requirements and the latest technological standards. ICRA also takes note of the stiff competition in the DSC segment, despite its strong market share, from other licensed certifying authorities leading to pricing pressures. This apart, Emudhra faces competition from other domestic and international players in the enterprise solutions segment. Further, it faces risk of retention of key manpower with technical capabilities, which remain a key competence in the IT industry, and other reputation risks that can impact its market share.

ICRA takes note of the ongoing debt-funded capital expenditure towards construction of Emudhra's campus in Devenahalli. The sizeable capital expenditure exposes the company to execution risks pertaining to cost and time overruns. Going forward, the timely completion of the capital expenditure within the budgeted costs and the company's ability to scale up operations, while maintaining its profitability, would be the key rating sensitivities.

## Outlook: Stable

The Stable outlook reflects ICRA's expectation that Emudhra will continue to benefit from the extensive experience of the promoters and the management team in the business and its established market position in the digital authentication market. The outlook may be revised to Positive if there is a substantial improvement in the revenues and profitability levels, while maintaining its capital structure. The outlook may be revised to Negative if cash accruals are lower than expected or if any capital expenditure or increase in working capital requirements weakens the company's liquidity position.

## Key rating drivers

### Credit strengths

**Extensive experience of the management and established track record of the operations** – The company's director and the management team have extensive experience in the IT industry and have served in senior roles in other IT companies. The expertise of the management has aided in scaling up the business and offering authentication-related enterprise solutions. Emudhra has established its brand and captured a significant portion of the market share with its established track record of operations. Its DSCs are accepted by various Central and state government departments, PSU organisations, banks and other corporates.

**Healthy financial risk profile in FY2019** – The company reported a healthy revenue growth of ~23% in FY2019, mainly driven by an increase in the number of DSCs issued. The revenues are supported by its presence in the enterprise solutions segment, which contributed to around 27% of its revenues in FY2019. Further, the company's profitability stood healthy as reflected by an operating profit margin of 23.44% and a net profit margin of 11.21% in FY2019. The capital structure remained comfortable with a low gearing of 0.32 times as on March 31, 2019 and the coverage indicators remained healthy with interest cover of 17.57 times, DSCR of 14.46 times and Net Cash Accruals/Total Debt of 65.08% for FY2019.

**Diversified customer and user industry base** – DSC is used by individuals, corporates, Government, etc. It finds applications across Government, private, public sector for various purposes. The customer base for this segment is wide and spread across country. Further, the DSCs have validity for one to three years and on expiry, a fresh certificate needs to be obtained. Further, for the enterprise solution segment, the company has established relationships with reputed clients across various industries such as banking, financial services, healthcare, education, manufacturing, Government, etc.

### Credit challenges

**Modest scale of operations despite improvement** – The company's scale of operations remained moderate at Rs. 90.03 crore in FY2019, restricting the financial and operational flexibility to an extent.

**Exposed to changes in regulatory framework** – The company is licensed by the CCA, Ministry of Information Technology and operates under the guidelines set by the Information Technology Act. This exposes its business to any changes in the requirements of CCA. Further, CCA has strict audit requirements, which DSC certifying authorities are required to follow.

**Exposure to cyber security and data management risks** – The IT industry is susceptible to risks like data management and cyber security risks. It is exposed to risks related to technological changes and shifts in customer demand. The management participates in global forums and keeps itself updated with the latest technological changes, to mitigate the risk. The audit process, as prescribed by the CCA, is very rigorous and the management ensures to comply with all the [www.icra.in](http://www.icra.in)

regulatory requirements. Nevertheless, the company would be required to continuously invest in upgrading its technology to keep up with the regulatory requirements and the latest technological standards.

**Competition from other domestic and international players** – The company faces competition in the digital signature certificate market from other players like Sify Communications Ltd, Capricorn Identity Services Pvt. Ltd, (n) Code Solutions, Verasys etc. Further, in the enterprise solutions business, it faces competition from the players in the global market. The intense competition results in limited pricing flexibility and bargaining power with the customers.

## Liquidity position

The company has Rs. 25.00 crore of sanctioned term loans, of which Rs. 12.36 crore of loans was utilised as on March 31, 2019 for funding its capital expenditure. The repayment towards the loans started from June 30, 2019. It has working capital facilities of Rs. 8.00 crore, the utilisation for which stood at 46% of the sanctioned limit during June 2018 to June 2019. It has significant capex plans towards construction of campus in FY2020. The liquidity position is expected to remain adequate supported by its undrawn term loan and expected growth in cash accruals.

## Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Issuers in the Information Technology (Service) Industry</a> |
| Parent/Group Support            | Not applicable   |
| Consolidation / Standalone      | Standalone financial statements of the issuer.   |

## About the company

Incorporated in 2008, Emudhra is a Bangalore based, licensed certifying authority involved in issuing digital signature certificates in India under its brand eMudhra. The company is licensed by the Controller of Certifying Authorities (CCA), Ministry of Information Technology and operates under the guidelines set by the Information Technology Act. Along with issuing digital signatures, it provides various enterprise solutions and services around digital signatures like authentication solutions, paperless office solutions, solutions for securing data at rest and data in transit. Apart from this, it also has solutions for Internet of Things (IoT), and other solutions around Public Key Infrastructure (PKI).

## Key financial indicators (audited)

|                              | FY2018 | FY2019 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | 73.32  | 90.03  |
| PAT (Rs. crore)              | 8.28   | 10.09  |
| OPBDITA/OI (%)               | 18.35% | 23.44% |
| RoCE (%)                     | 13.93% | 19.30% |
| Total Debt/TNW (times)       | 0.12   | 0.32   |
| Total Debt/OPBDITA (times)   | 0.62   | 1.18   |
| Interest Coverage (times)    | 34.41  | 17.57  |

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years**

| Instrument       | Current Rating (FY2020) |                          | Chronology of Rating History for the past 3 years   |                    |                         |                         |                         |
|------------------|-------------------------|--------------------------|---|--------------------|-------------------------|-------------------------|-------------------------|
|                  | Type                    | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) as on March 31, 2019 | August 2019        | Date & Rating in FY2019 | Date & Rating in FY2018 | Date & Rating in FY2017 |
| 1 Cash Credit    | Long-term               | 8.00                     | -   | [ICRA]BBB (Stable) | -                       | -                       | -                       |
| 2 Term Loan      | Long-term               | 25.00                    | 12.36   | [ICRA]BBB (Stable) | -                       | -                       | -                       |
| 3 Non-fund based | Short-term              | 2.00                     | -   | [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](http://www.icra.in)

## Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance /<br>Sanction | Coupon Rate | Maturity<br>Date | Amount<br>Rated<br>(Rs. crore) | Current Rating and<br>Outlook |
|---------|-----------------|--------------------------------|-------------|------------------|--------------------------------|-------------------------------|
| NA      | Cash Credit     |                                |             |                  | 8.00                           | [ICRA]BBB (Stable)            |
| NA      | Term Loan       | FY2019                         | -           | FY2026           | 25.00                          | [ICRA]BBB (Stable)            |
| NA      | Non-fund based  |                                |             |                  | 2.00                           | [ICRA]A3+                     |

Source: Emudhra Limited

## ANALYST CONTACTS

**K Ravichandran**

+91 44 45964301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**R Srinivasan**

+91 44 45964315

[r.srinivasan@icraindia.com](mailto:r.srinivasan@icraindia.com)

**Nikhil Mathew**

+91 80 49225569

[Nikhil.mathew@icraindia.com](mailto:Nikhil.mathew@icraindia.com)

**Kashika Khiani**

+91 80 49225571

[kashika.khiani@icraindia.com](mailto:kashika.khiani@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto: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.

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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents