

January 16, 2020

## Onward Technologies Limited: Long-term rating reaffirmed; short-term rating assigned

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term, Fund-based – Term Loan	4.00	0.00	-
Long Term, Fund-based – Working Capital Facilities	13.00	14.00	[ICRA]BBB-(Stable); Reaffirmed
Short Term, Non Fund Based	0.00	3.00	[ICRA]A3; Assigned
<b>Total</b>	<b>17.00</b>	<b>17.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation takes into consideration the extensive experience of the promoters of Onward Group in the IT services industry and its well-established relationships with reputed clientele, attracting repeat orders from them. Moreover, Onward Technologies Limited (OTL) operates in the engineering research and development (ER&D) field, which is growing significantly on the back of higher demand for industrial automation and digitisation. Along with repeat orders from the client, this provides revenue visibility in the near term. ICRA also notes OTL's consolidated financial profile characterised by improved profitability along with leverage and coverage indicators in FY2019. Onward Group exhibits significant geographic diversification with presence in the domestic as well as overseas markets such as the US, UK and Germany.

The ratings, however, remain constrained by OTL's modest scale of operations in the ER&D and IT applications industry, which is populated by large-scale players. OTL is also exposed to moderate client concentration risk with its top five customers driving ~41% and ~82% of revenues in FY2019 and H1 FY2020, respectively. The company also remains inherently exposed to currency movement risks with its presence in overseas markets. Any adverse movement in forex could, therefore, affect the company's profitability.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of the promoters spanning over three decades 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.

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

**Financial profile characterised by improved profitability, leverage and coverage indicators in FY2019** – OTL's consolidated financial profile in FY2019 was characterised by improved profitability along with leverage and coverage indicators. The profitability was improved in line with company's decision of discontinuing certain cash flow straining projects and utilising the resources in other remunerative projects. Effective employee management also led to containment of operating costs, as employee costs form a significant part of the company's operating costs. Improvement in profitability as well as leverage and coverage indicators continued in H1 FY2020.

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

**Operations in ER&D field, which is growing significantly amid higher demand for industrial automation and digitisation** - OTL is primarily engaged in the ER&D field, which is growing significantly on back of higher demand for industrial automation and digitisation. The company is expected to leverage from the growth prospects of ER&D in the domestic as well as overseas markets.

## Credit challenges

**Modest scale of operations in the ER&D and IT applications industry, populated by large-scale players** – OTL is operational in the ER&D field, which is characterised by presence of large scale players. The company competes with the ER&D divisions of such players, which often benefit from economies of scale due to their large scale of operations.

**Exposed to moderate client concentration risk** – OTL stands exposed to client concentration risk with its top five clients driving ~82% of its revenue in H1 FY2020. However, the 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, generating adequate returns, will be critical from the profitability as well as cash flow perspective.

**Inherently exposed to currency movement risk with presence in overseas markets; any adverse movement in forex could affect profitability** – OTL is inherently exposed to currency movement risk with its overseas operations. 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: Adequate

Onward Group continues to exhibit **adequate** liquidity position on a consolidated level. The Group had external term-loan of Rs. 0.6 crore as on March 31, 2019, which is expected to be completely repaid in FY2020. The Group had free cash and cash equivalents of Rs. 5.9 crore as on September 30, 2019. The buffer from undrawn working capital limits, which stood at Rs. 4.8 crore as on November 30, 2019 also provides some comfort to the Group's liquidity position.

## Rating sensitivities

**Positive triggers:** Ratings may be upgraded if the group exhibits significant improvement in revenue coupled with betterment in profitability

**Negative triggers:** Ratings may be downgraded if any sustained deterioration in scale of operations or operating profit margin leads to stress on liquidity position of the group.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Information Technology (Services) Industry</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the consolidated financial statements of Onward Group which includes Onward Technologies Limited, Onward Technologies, Inc., Onward Technologies GmbH and Onward eServices Limited.

## About the company:

Incorporated in 1991, Onward Technologies Limited (OTL) is engaged in the fields of engineering design services and IT outsourcing. The company operates in the Indian as well as overseas markets such as the US, the 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, rated at [ICRA]BBB-(Stable)/[ICRA]A3), another subsidiary of OTL, offers IT and staffing solutions while mainly operating in the domestic market.

## Key financial indicators (Consolidated, Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	244.5	259.5
PAT (Rs. crore)	6.7	10.1
OPBDIT/OI (%)	4.6%	8.3%
RoCE (%)	15.0%	25%
Total Debt/TNW (times)	0.4	0.3
Total Debt/OPBDIT (times)	1.7	0.7
Interest coverage (times)	3.7	7.9

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

## Any other information: None

### Rating history for last three years:

Chronology of Rating History for the Past 3 Years									
Current Rating (FY2020)									
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
					16-Jan-20	3-Jan-19	10-Aug-18	-	-
1	Cash Credit	Long-Term	14.0	NA	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-	-
2	Non-Fund Based – Bank Guarantee	Short-Term	3.0	NA	[ICRA]A3	-	-	-	-
3	Term Loan	Long-Term	-	-	-	[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](http://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	NA	NA	NA	14.0	[ICRA]BBB-(Stable)
NA	Non Fund Based – Bank Guarantee	NA	NA	NA	3.0	[ICRA]A3

Source: Onward Technologies Limited

## Annexure-2: List of entities considered for consolidated analysis -

Company Name	Ownership	Consolidation Approach
Onward eServices Limited	100.00%	Full Consolidation
Onward Technologies, Inc.	100.00%	Full Consolidation
Onward Technologies GmbH	100.00%	Full Consolidation

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