

September 03, 2020

Onward Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – working capital facilities	14.00	13.75	[ICRA]BBB-(Stable); Reaffirmed
Long term – fund based / non fund based facilities	0.00	1.00	[ICRA]BBB-(Stable); Reaffirmed
Short term – non fund based facilities	3.00	1.00	[ICRA]A3; Reaffirmed
Total	17.00	15.75	

*: Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to take 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 and also providing revenue visibility. 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. ICRA also notes OTL's consolidated financial profile characterised by healthy leverage and coverage indicators in FY2020, with unencumbered cash balances providing cushion to its liquidity profile. Onward Group exhibits significant geographic diversification with presence in the domestic as well as overseas markets such as the US, the 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 ~43% of revenues in FY2019 and 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. High level of outstanding receivables in the domestic market also remains a key concern for the company.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that OTL will continue to benefit from the extensive experience of its promoters in the IT services industry. Addition of new clients in the company's clientele along with repeat orders from the existing clientele is expected to provide considerable revenue visibility over the near to medium term.

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 ensure repeat orders and also provide revenue visibility to the company.

Healthy leverage and coverage indicators in FY2020 – OTL's consolidated financial profile in FY2020 was characterised by healthy leverage and coverage indicators with unencumbered cash balances, providing cushion to its liquidity profile.

Although the profitability was suppressed to an extent in FY2020 on account of certain largely non-recurring expenses incurred in Q4FY2020, the company showed a recovery in its profitability metrics in Q1FY2021.

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

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 ~41% and ~43% of its revenue in FY2019 and FY2020 respectively. 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 and 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.

High level of outstanding receivables for the domestic market in line with industry standards – OTL exhibits high level of outstanding receivables for the domestic market, in line with the business operations and characteristics of clientele catered to in the domestic market. The company reported receivable cycle of 67 days in FY2020, highlighting the high level of outstanding receivables on the consolidated level. However, the company's receivables position is largely in line with the industry standards for the domestic IT industry.

Liquidity position: Adequate

Onward Group continues to exhibit **adequate** liquidity position on a consolidated level. The Group had no long-term debt repayment obligations on its books as on March 31, 2020 which provides comfort to its liquidity position. The liquidity position draws further comfort from cash and equivalent balances of Rs. 22.1 crore as on March 31, 2020. The buffer from undrawn working capital limits, which stood at Rs. 6.2 crore as on June 30, 2020 also provides some comfort to the Group's liquidity position. OTL has recently availed additional working capital limits of Rs. 5.0 crore which provides further cushion to the working capital profile of the company.

Rating sensitivities

Positive triggers – The ratings could be upgraded if the company exhibits significant improvement in revenue base coupled with betterment in profitability on a sustained basis.

Negative triggers – The ratings could be downgraded if a sustained deterioration in the scale of operations or operating margin leads to stress on liquidity position of the group.

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 ratings are based on the consolidated financial statements of Onward Group which includes Onward Technologies Limited, Onward Technologies, Inc., Onward Technologies GmbH, Onward Properties Private Limited 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, another subsidiary of OTL, offers IT and staffing solutions while mainly operating in the domestic market.

Key financial indicators

	FY2019 Audited	FY2020 Audited
Operating Income (Rs. crore)	259.50	271.55
PAT (Rs. crore)	10.13	6.24
OPBDIT/ OI (%)	8.30%	8.61%
PAT/OI (%)	3.91%	2.30%
Total Outside Liability/ Tangible Net Worth (times)	0.72	0.96
Total Debt/ OPBDIT (times)	0.75	1.48
Interest Coverage (times)	7.85	6.75

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2021)					Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore) as on March 2020	Date & Rating 3-Sep-2020	Date & Rating in FY2020 16-Jan-20	Date & Rating in FY2019 3-Jan-19 10-Aug-18		Date & Rating in FY2018 -
1 Fund Based - Cash Credit	Long-Term	13.75	NA	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-
2 Non Fund Based – Bank Guarantee	Short-Term	1.00	NA	[ICRA]A3	[ICRA]A3	-	-	-
3 Fund based / non fund based	Long-Term	1.00	NA	[ICRA]BBB-(Stable)	-	-	-	-
4 Fund Based - 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 [click here](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	13.75	[ICRA]BBB-(Stable)
NA	Non-Fund Based - Bank Guarantee	NA	NA	NA	1.00	[ICRA]A3
NA	Corporate Credit Card (Long Term – Fund Based / Non-Fund Based)	NA	NA	NA	1.00	[ICRA]BBB-(Stable)

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
Onward Properties Private Limited	100.00%	Full Consolidation

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