

October 07, 2022

## Emudhra Limited: Ratings reaffirmed; outlook revised to Positive

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	8.00	-	-
Long-term Fund-based – Term loan	25.00	-	-
Short-term – Non-Fund Based	2.00	2.00	[ICRA]A2; reaffirmed
Long-term/ Short -term – Unallocated	-	33.00	[[ICRA]BBB+]/[ICRA]A2 reaffirmed; outlook revised to Positive from Stable
<b>Total</b>	<b>35.00</b>	<b>35.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in outlook on Emudhra Limited's (eMudhra's) rating reflects ICRA's expectation that the company is likely to register steady revenue growth and higher internal accruals over the near to medium term, while maintaining a comfortable capital structure and adequate liquidity position. This is expected to be aided by eMudhra's leadership position in the digital trust services business segment and increased revenue contribution from its enterprise solution segment. eMudhra raised around Rs. 200.0 crore in May-June 2022 through the initial public offering (IPO) and pre-IPO route, resulting in considerable increase in its capital base and reduced reliance on debt. Coupled with steady revenue growth and improving profitability in FY2022 and Q1 FY2023, this has continued to result in a healthy financial risk profile for the company.

Additionally, the ratings continue to factor in the extensive experience of the promoter in the IT industry, eMudhra's established track record of operations and its wide sales and distribution network across the country. Moreover, the company's customer base is well diversified in the digital trust services segment, since it is largely retail in nature. ICRA also notes its established relationships with reputed customers and its strong presence in the export markets of the enterprise solutions segment.

The ratings are, however, constrained by eMudhra's moderate, albeit growing, scale of operations as reflected in its top line of ~Rs 182.6 crore in FY2022, registering revenue growth of ~39% YoY and strong growth in Q1 FY2022 at ~22% YoY. 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 company also remains exposed to technology obsolescence risks, cyber security and data management risks given the nature of its business. However, it is working on new product development and diversifying its revenue to mitigate this risk to an extent. Moreover, eMudhra faces competition from other prominent domestic players in the trust service segment as well as established players from the US and Europe in its enterprise solutions segment, which limits its pricing flexibility to an extent. However, the company's leadership position in the trust service segment and its ability to provide solutions for premise as well as cloud-based models provide it with a competitive advantage to some extent.

## Key rating drivers and their description

### Credit strengths

**Established position as licensed certifying authority for issuing DSC<sup>1</sup> in India** – eMudhra is licensed by the Controller of Certifying Authorities (CCA) to issue DSC in India. It started operations from 2008 and is now a leading player in the digital authentication space supported by its wide network of controllers or agents across India. The company has a strong track record in the DSC market with a market share of ~37.9% in FY202. It has issued ~24.3 million DSCs through its channel partners in FY2022.

**Diversified customer base in DSC segment and reported customer base in enterprise solutions segment** – DSC is used by individuals, corporates, and the Government, etc, and finds applications across Government, private, public sectors for various purposes. Thus, the customer base for this segment is largely retail in nature and widely spread across the country. The company has established relationships with reputed clients in the enterprise solution segment of domestic and export markets. Its clientele includes Infosys Limited, Hindalco Industries Limited, Mashreq Bank, and Baud Telecom Company, etc., operating in various industries such as banking, automotive, information technology, consumer durables, etc. The company also offer services and digital products to various Government agencies and is, therefore, a key player in enabling paperless transactions as part of Digital India.

**Healthy financial risk profile** – eMudhra's financial profile remains healthy, aided by the strong revenue growth, improved profitability, increased net worth and comfortable debt protection metrics. The company's revenue grew by 39% YoY in FY2022, supported by growth in both trust service and enterprise solution segments. Enterprise solution witnessed growth in both domestic and export markets. Moreover, the company's operating margin improved to 37.4% in FY2022 from 30.3% in FY2021, driven by improved operating leverage. The financial risk profile strengthened further, supported by sizeable equity infusion of ~Rs. 200 crore (Rs. 161 crore through IPO and Rs. 39 crore through pre-IPO) in May–June 2022. Consequently, the company prepaid its bank debt and was net debt free as on June 30, 2022. This has led to comfortable debt protection metrics and liquidity position. Moreover, the capital structure and debt protection metrics are likely to remain healthy in the absence of any increase in debt levels, going forward.

### Credit challenges

**Moderate scale of operations** – Though eMudhra has shown strong revenue growth in the past few years, the scale of operations remains moderate with total revenue of Rs. 182 crore in FY2022. However, ICRA expects steady revenue growth in the short to medium term supported by its leadership position in the digital trust services business and strong order pipeline in the enterprise solution segment.

**Exposed to changes in regulatory framework and technological obsolescence** – The company is licensed by the CCA, Ministry of Information Technology, Government of India, 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. The license from CCAs has been renewed in 2018 and is valid till October 2023. The industry is susceptible to risks related to technological changes, competition from substitutes and shifts in customer demand apart from data management and cybersecurity risks. This necessitates continued investments in technology upgradation. The company's continuous focus toward enterprise solution segment and investment in product development and further diversifying its revenue mitigates this risk to an extent.

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<sup>1</sup> DSC: Digital Sign Certificate

**Competition from other domestic and international players** – The company faces competition in the DSC from other players like Sify Communications Ltd, Capricorn Identity Services Pvt. Ltd, (n) Code Solutions, Verists etc. The intense competition results in limited pricing flexibility and bargaining power with the customers for the sale of DSC in the domestic market. Further, in the enterprise solutions business, it faces competition from established players from the US and Europe in the global market. However, its leadership position in the trust service segment, low payroll costs and capability to provide solutions for on-premise as well as cloud-based models provide a competitive advantage to the company.

### Liquidity position: Adequate

eMudhra’s liquidity is adequate, supported by a healthy cash flow generation, adequate unencumbered cash and cash equivalents and no long-term debt repayment obligations. As on June 30 ,2022, the company had unencumbered cash and cash equivalent of Rs. 42.1 crore. The company also has IPO proceeds of ~Rs. 122.8 crore as on date, which are expected to be utilised for funding the proposed capex of ~Rs. 40-45 crore p.a. toward infrastructure spend, including setting up a data centre, and product development over FY2023–FY2024.

### Rating sensitivities

**Positive factors** – ICRA could upgrade eMudhra’s rating if the company demonstrates steady scale up of revenues while maintaining healthy operating margin and debt protection metrics.

**Negative factors** – The outlook on the long-term rating may be revised to Stable or the ratings may be downgraded, if there is considerable pressure on revenue and internal accrual generation due to reasons including any adverse regulatory changes, or if there is any increase in working capital intensity, resulting in weakening of the liquidity position. Specific metrics that could lead to a rating downgrade include Total Debt/OPBITDA higher than 2.5x on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Issuers in the Information Technology (Service) Industry</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Emudhra Limited. As of March 31, 2022, eMudhra had eight subsidiaries, which are enlisted in Annexure II.

### About the company

Incorporated in 2008, eMudhra is a Bangalore-based, licensed certifying authority that issues digital signature certificates in India under its brand, eMudhra. The company is licensed by the Controller of Certifying Authorities (CCA), Ministry of Information Technology, Government of India, 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 and public key infrastructure solutions.

### Key financial indicators (audited)

eMudhra - Consolidated	FY2021	FY2022
Operating income	131.6	182.6
PAT	25.4	41.1
OPBDIT/OI	30.3%	37.1%
PAT/OI	19.3%	22.5%
Total outside liabilities/Tangible net worth (times)	0.6	0.7
Total debt/OPBDIT (times)	1.3	1.0
Interest coverage (times)	47.5	12.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation.

**Status of non-cooperation with previous CRA:** The company has an outstanding rating of BWR BB-(Stable)/A4; Issuer Non-Cooperating from Brickwork Ratings as on April 20, 2022.

**Any other information:** None

### Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Oct 07, 2022	Aug 26, 2021	Sep 24, 2020	Aug 14, 2019
1 Non-fund based	Short-term	2.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
2 Unallocated	Long-term/ Short-term	33.00	-	[ICRA]BBB+ (Positive)/ [ICRA]A2	-	-	-
3 Cash Credit	Long-term	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4 Term Loan	Long-term	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term – Non-Fund Based	Simple
Long-term/ Short -term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund based	NA	NA	NA	2.00	[ICRA]A2
NA	Unallocated	NA	NA	NA	33.00	[ICRA]BBB+(Positive)/[ICRA]A2

Source: Company

## Annexure II: List of entities considered for consolidated analysis

Company Name	eMudhra Ownership	Consolidation Approach
eMudhra (MU) Limited	100%	Full Consolidation
eMudhra Technologies Limited	100%	Full Consolidation
eMudhra Consumer Service Limited	100%	Full Consolidation
eMudhra DMCC	100%	Full Consolidation
eMudhra Pte Ltd	100%	Full Consolidation
eMudhra INC Ltd	100%	Full Consolidation
eMudhra B.V.	100%	Full Consolidation
PT eMudhra Technologies Indonesia	59.35%	Full Consolidation

Source: eMudhra annual report FY2022

Note: ICRA has taken a consolidated view of the parent (eMudhra), its subsidiaries and associates while assigning the ratings.

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