

April 19, 2023

Central Data Systems Private Limited: [ICRA]BB+(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Cash credit	27.00	
Long-term – Bank guarantee	3.00	[ICRA]BB+(Stable); assigned
Long-term – Unallocated limit	8.00	
Total	38.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating to Central Data Systems Private Limited's (CDSPL) factors in the significant experience of the promoters in the Information Technology (IT) hardware services spanning more than three decades, along with its diversified and reputed client base across industries and geographical locations in India. The rating considers the healthy increase in its operating income (OI) at a five-year compounded annual growth rate (CAGR) of 16.1% to Rs. 100.6 crore in FY2022. It is estimated to report an OI of Rs. 130-135 crore in FY2023 and 15-20% year-on-year (YoY) in FY2024, backed by healthy order inflow. CDSPL has comfortable debt coverage metrics, which is expected to continue over the medium term.

However, the rating remains constrained by moderate scale of operations, despite the expected growth in OI in near term, modest net worth at Rs. 18.2 crore as on March 31, 2022, and moderate operating margins of around 7-8% during the last two-three years, given the relatively limited value-additive nature of operations. Further, the working capital-intensive operations with high debtor and creditors days constrain the rating. The rating is constrained by the intense competition in the industry, translating in limited pricing flexibility for industry participants including CDSPL.

The Stable outlook on the rating reflects ICRA's opinion that CDSPL will continue to benefit from the sustained growth in revenues, diversified as well as reputed client base and experienced promoters in IT hardware services.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in IT hardware services – Incorporated in 2003, CDSPL offers IT infrastructure solutions and services for corporations across industries. Its infrastructure and digital solutions include end-to-end services for enterprise networking, security, data centre services, enterprise computing, cloud management and power conditioning. The promoters have more than three decades of experience in the IT hardware services, which has helped to develop strong association with clients and suppliers/original equipment manufacturers (OEMs) for the business.

Pan-India presence with diversified client base – CDSPL has pan-India presence through its offices at six locations viz, Bangalore, Hyderabad, Delhi, Mumbai, Chennai, and Kolkata. The company has catered to reputed clients like Amazon, Hindustan Coca Cola, Manipal Hospitals, Micron Semiconductor, etc, across diversified industries, which reduces the client concentration risk.

Healthy revenue growth expected in FY2023 and FY2024 backed by order inflow – CDSPL’s OI increased at a five-year CAGR of 16.1% to Rs. 100.6 crore in FY2022 and is estimated to reach Rs. 130-135 crore in FY2023. In FY2024, the OI is likely to grow by 15-20% YoY, driven by healthy order inflow. The overall profits and cash accruals from business have consistently grown over the past years, in line with the increase in the scale of operations. CDSPL has comfortable debt coverage metrics, which is expected to continue over the medium term.

Credit challenges

Moderate scale of operations amid stiff competition in industry – Despite expected growth in OI in FY2023 to Rs. 130-135 crore and 15-20% YoY growth in FY2024, CDSPL’s scale of operations remain moderate. The company faces intense competition from established domestic as well as international players translating in limited pricing flexibility, which is reflected in its moderate operating margins.

Modest net worth and moderate operating margins due to relatively limited value-additive nature of operations – CDSPL reported a modest net worth of Rs. 18.2 crore as on March 31, 2022. In addition, it reported moderate operating margins of 7-8% over the last two-three years due to limited value addition to the procured equipment from OEMs and for its installation services. The company’s ability to scale up revenues from the value-added services which can result in an improvement in margins in the medium term.

Working capital-intensive operation with higher debtors and creditors – CDSPL’s business is working capital-intensive in nature with a moderately high debtors’ cycle, although it is supported by an extended interest-free credit period provided by the OEMs. The debtor days stood at 125 and creditor days at 150, respectively, as on December 31, 2022. Considering the growth prospects, CDSPL’s working capital cycle is expected to remain elongated.

Liquidity position: Adequate

The company’s liquidity position is adequate with Rs. 4.7 crore of unencumbered cash balance as on December 31, 2022. The average utilisation of the cash credit facility remained at around 62% for the last 12 months ending December 2022. Additionally, it gets working capital demand loan against fixed deposits. The repayment obligations, on the long-term debt, worth around Rs. 0.25 crore in FY2024 is expected to be met through its cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if CDSPL demonstrates a significant increase in revenues and profitability, improvement in working capital cycle resulting in improved leverage metrics and liquidity position on a sustained basis.

Negative factors – ICRA could downgrade the rating in case of a material decline in revenues and profitability, or stretch in working capital cycle, or if there is a significant increase in indebtedness resulting in weakening of liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Information Technology Hardware-related Services Industry
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Central Data Systems Pvt Ltd (CDSPL) is an IT infrastructure solutions provider for entities across industries. Its infrastructure digital solutions include end-to-end services (purchase, installation, maintenance and repair) for enterprise networking, security, data centre services, enterprise computing, cloud management and power conditioning. CDSPL is an ISO 9001:2015 certified and ISO/IEC 27001:2013 certified company.

Key financial indicators

	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Prov)
Operating income	58.7	100.6	128.4
PAT	2.7	5.3	11.4
OPBDIT/OI	6.6%	7.0%	8.9%
PAT/OI	4.6%	5.3%	8.9%
Total outside liabilities/Tangible net worth (times)	3.0	5.2	2.71
Total debt/OPBDIT (times)	5.5	4.7	3.7
Interest coverage (times)	4.4	5.9	5.0

Source: Company data; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
								April 19, 2023
1	Cash credit	Long Term	27.00	-	[ICRA]BB+(Stable)	-	-	-
2	Bank guarantee	Long Term	3.00	-	[ICRA]BB+(Stable)	-	-	-
3	Unallocated limits	Long Term	8.00	-	[ICRA]BB+(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Bank guarantee	Very Simple
Unallocated limits	NA

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	27.00	[ICRA]BB+(Stable)
NA	Bank guarantee	NA	NA	NA	3.00	[ICRA]BB+(Stable)
NA	Unallocated limits	NA	NA	NA	8.00	[ICRA]BB+(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis-Not applicable

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