

February 07, 2024

Nihilent Limited: [ICRA]BBB-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BBB-(Stable); assigned
Total	-	

*Instrument details are provided in Annexure-I

Rationale

While assigning the rating, ICRA has considered a consolidated view of Arcalis Technologies Private Limited (ATPL) and its subsidiary Nihilent Limited (Nihilent). This is because ATPL has been promoted by Mr. L.C. Singh (co-founder of Nihilent) and presently hold 70.2% stake in Nihilent, 69.2% of which ATPL recently acquired from erstwhile majority shareholder Hatch Investment (Mauritius) Limited¹. The transaction was concluded recently in December 2023, funded through debt raised by ATPL. Moreover, adequate liquidity is available to meet the cash surplus required to be maintained as part of the sanction terms. The group also has plans of merging both these companies over the near term.

The assigned rating factors in the extensive experience of Nihilent's promoters and its senior management team in the consulting, analytics, and IT solution & service industry. Despite being a relatively small-sized IT company, Nihilent has diversified presence and services multiple customers (including reputed corporates) across verticals such as BFSI², media & entertainment, manufacturing, retail, and healthcare. The company's revenue diversification is supported by its established presence in South Africa, USA, and India. Leveraging on the same, the company reported steady revenue growth and accrual generation in recent years. This, coupled with nil external debt till FY2023, translated into healthy credit metrics, supporting its adequate financial profile.

However, ATPL has recently availed sizeable debt (Rs. 325 crore in the form of NCDs from ICICI Credit Opportunities Fund - AIF I and Piramal Structured Credit Opportunities Fund in December 2023) in the current fiscal to fund the share acquisition. This has moderated the debt coverage metrics with estimated consolidated Total Debt/OPBITDA of 6-6.5 times in FY2024. However, adjusting for the surplus cash & liquid investments, the net Total Debt/OPBITDA is estimated at 1.8-2 times over the same period. The rating draws comfort from the available liquidity of ~Rs. 222 crore as on October 31, 2023, in the form of cash and liquid investments. ATPL is proposed to be merged with Nihilent within the next 18 months and the company plans to refinance the debt at relatively favourable terms. ICRA will continue to monitor the developments regarding the same.

Additionally, the rating is constrained by Nihilent's steadily declining operating profit margins (i.e., 17.4% in FY2020 to 12.3% in FY2023) in comparison to the broader IT services industry. In ICRA's opinion, the same has been because of a) the company's relatively higher exposure towards the South African market, which has exposed the company to depreciation in South African ZAR vis-à-vis INR, b) wage cost inflation in the recent years, due to arresting attrition in manpower especially post Covid-19 and c) highly competitive intensity of the industry. In addition, the overall slowdown in the IT sectors on the back of constrained budgetary allocations and pandemic-induced challenges have impacted the company's revenue growth and in turn, its earnings over the past few years. ICRA understands that at the same time, the company has continued to make investments in developing capabilities in new technology platforms and strengthening its business teams. Accordingly, the company's ability to grow its revenue, while improving its operating profitability will be imperative to maintain its credit profile.

¹ Part of Japan's NTT (Nippon Telegraph and Telephone corporation) group

² BFSI – Banking, Financial Service and Insurance

The rating also factors in the concentration of the company's revenue from South Africa, exposing it to any adverse policy changes in this region as well as volatility in foreign exchange rates. However, ICRA notes that the share of revenues generated from South Africa have moderated over the years (53.1% in FY2023 from 68.4% in FY2019) with growth in revenues from India and other key markets; and the company's foreign exchange policy which partly insulates the margins from forex volatility.

The Stable outlook on Nihilent's rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters in the industry and established relationships with its customers, which will support revenue growth and accrual generation over the near to medium term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the IT service Industry – Nihilent was promoted by Mr. L.C. Singh in 2000, who has over fifty years of experience having worked with leading IT services companies such as Tata Consultancy Services Limited³ and Zensar Technologies Limited⁴. The promoters are supported by a management team with considerable track record in the consulting, analytics, and IT solution & service industry. The company's founders and senior management have several decades of experience in the industry, which has helped drive the company's growth over the years. As part of succession planning, the promoters have also roped in the next generation who have taken key positions in the company.

Diversified presence across verticals with reputed customer base - The company has diversified presence across verticals such as BFSI, media & entertainment, manufacturing, retail and healthcare; and services multiple customers which include reputed corporates across these verticals. Nihilent has been able to forge strong client relationships across South Africa, USA, and India, corroborated by the repeat orders received from these clients.

Adequate financial profile – Nihilent's financial profile is supported by steady internal accruals, healthy net worth and adequate liquidity, reflected in cash and liquid investment of Rs. 222 crore as on October 31, 2023. The company remained debt free (excluding lease liabilities) till FY2023, translating into healthy coverage metrics. Notwithstanding some moderation in the leverage and coverage metrics, the overall financial profile is expected to remain adequate, supported by steady accrual generation and no further increment in debt levels.

Credit challenges

Credit metrics to moderate in near to medium term due to addition of debt availed in FY2024 – The capital structure and coverage indicators remained healthy till FY2023 on account of minimal debt levels (only lease liabilities). However, ATPL has availed sizeable debt for the share acquisition, which has moderated the debt coverage metrics with estimated consolidated Total Debt/OPBITDA of 6-6.5 times in FY2024. Nonetheless, adjusting for the available surplus, the net Total Debt/OPBITDA is estimated at 1.8-2 times over the same period. Despite large debt repayment obligation (principal + interest) which start from FY2026 and end in FY2030, the company's DSCR (including the surplus cash available) is expected to remain adequate over this period.

Moderate profit margins owing to relatively high competitive intensity of the industry and wage cost inflation witnessed in recent years – The company's operating margins have moderated in recent years (12.3% in FY2023 versus 17.4% in FY2020) because of a) company's relatively higher exposure towards the South African market, which has exposed the company to depreciation in South African ZAR vis-à-vis INR, b) wage cost inflation in the recent years, due to arresting attrition in manpower especially post Covid-19 and c) highly competitive intensity of the industry. In addition, the overall slowdown in the IT sectors on the back of constrained budgetary allocations and pandemic-induced challenges have also impacted the company's revenue

³ rated [ICRA]AAA (Stable)/[ICRA]A1+

⁴ rated [ICRA]AA+(Stable)/[ICRA]A1+

growth and in turn, its earnings over the past few years. ICRA understands that at the same time, the company has continued to make investments in developing capabilities in new technology platforms and strengthening its business teams. Accordingly, the company's ability to grow its revenue while improving its operating profitability will be imperative to maintain its credit profile.

Intense competition, forex risk, high employee attrition and exposure to policies in key operating markets - Nihilent's profit margins remain susceptible to the pricing pressures and wage inflation by virtue of operating in the intensely competitive industry. Moreover, its revenues and margins are exposed to forex risks as revenues are derived from the international market. Nonetheless, the hedging mechanisms of the company mitigate this risk to some extent. Being in a highly labour-intensive business, the availability and retention of a skilled workforce continues to be a key challenge. Nihilent also remains exposed to macroeconomic uncertainties and any adverse regulatory/legislative changes in its key operating markets of South Africa, USA, and Europe.

Liquidity position: Adequate

Nihilent's liquidity is **adequate**, supported by steady accrual generation and unencumbered cash and liquid investments of Rs. 222 crore as on October 31, 2023. The company has no debt repayments over the next 17 months. On a consolidated basis, the sizeable debt obligations (including principal, interest and accrued interest) of ~ Rs. 177 crore to be paid in FY2026 are expected to be adequately covered by stipulated cash reserves (maintained at present from the available surplus and to be topped up as per terms of the debt availed). ICRA expects the cash accruals and available cash surplus to be sufficient to meet its debt repayment in the near to medium term.

Rating sensitivities

Positive factors – The rating could be upgraded in case of considerable scale up in the revenues and cash accruals of the company, while maintaining comfortable credit metrics and liquidity profile on a sustained basis.

Negative factors – Pressure on the rating could arise due to significant pressure on revenue and earnings, thus weakening the debt servicing indicators and liquidity position of the company. A specific credit metric that could lead to rating downgrade is if Net Debt/OPBITDA is more than 2.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for IT - Software & Services
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of Nihilent (including its subsidiaries as mentioned in Annexure II) and ATPL.

About the company

Nihilent was incorporated on May 29, 2000, as a private limited company and was converted into a public limited company on September 10, 2015. Nihilent is a consulting, advisory solution company leveraging technology to transform businesses. The company is involved in digital innovation using capabilities such as data analysis, deep learning, machine learning, AI, and Gen AI. creative content, including advertising, animation, etc.

ATPL owns 70.2% stake in Nihilent. The company is owned by (99.9% stake) by Mr. L.C. Singh who is the co-founder of Nihilent. At present, ATPL does not have any revenue generating operations.

Key financial indicators (audited)

Nihilent Limited - Consolidated	FY2022	FY2023
Operating income	444.0	543.6
PAT	42.6	31.4
OPBDIT/OI	15.4%	12.3%
PAT/OI	9.6%	5.8%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.5	0.4
Interest coverage (times)	22.7	29.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; all ratios/figures are as per ICRA calculations.

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 of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				February 07, 2024	-	-	-
1 Issuer Rating	Long term	-	--	[ICRA]BBB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	-	[ICRA]BBB-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Nihilent Ownership	Consolidation Approach
Arcalis Technologies Private Limited	-	Full Consolidation
Seventh August IT Service Private Limited	100%	Full Consolidation
Intellect Bizware Services Private Limited	100%	Full Consolidation
Nihilent Inc.	100%	Full Consolidation
Nihilent Australia Pty Ltd.	100%	Full Consolidation
Nihilent Nigeria Ltd.	51%	Full Consolidation
BPA Technologies Private Limited	100%	Full Consolidation

Source: Company

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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.

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