

September 06, 2024

Ramco Systems Limited: Ratings reaffirmed; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	35.00	15.00	[ICRA]BBB+(Stable); reaffirmed; Outlook revised to Stable from Negative
Short-term - Fund-based	137.50	75.00	[ICRA]A2; Reaffirmed
Short-term - Non-fund Based	30.50	20.50	[ICRA]A2; Reaffirmed
Long Term / Short Term – Unallocated	11.50	39.50	[ICRA]BBB+ (Stable)/ [ICRA]A2; reaffirmed; Outlook revised to Stable from Negative
Total	214.50	150.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook of Ramco Systems Limited (RSL/ the company) considers the expected improvement in the company's revenues and earnings on the back of its healthy order book, better project execution and cost optimisation measures adopted by the company. RSL's revenue for FY2024 increased 7% year-on-year (YoY), driven by new orders in the aviation sector. However, a sharp increase in provisioning (Rs. 128.9 crore in FY2024) towards trade receivables and unbilled revenues resulted in operating losses in FY2024. Nonetheless, after a high one-time provisioning of Rs. 107.2 crore in Q2 FY2024, provisioning levels have declined sharply in the past three quarters and are expected to remain low going forward. Additionally, RSL's revenues are likely to improve in FY2025 owing to the company's healthy order book position. Its operating margin is expected to improve on the back of increased scale, rationalisation of employee costs and lower provisioning, although its ability to achieve positive net profits remains to be seen. The company's debt profile includes Rs. 62.7 crore of lease liabilities and no other external borrowings as of March 31, 2024, while its liquidity is adequate, supported by a healthy buffer in working capital limits and Rs. 49.7 crore in cash and liquid investments as on June 30, 2024.

The ratings consider RSL's extensive track record and its established presence in the enterprise resource planning (ERP) business, along with its long-term association with its client base of leading global companies across diversified verticals. The company's ratings also factor in its strong financial flexibility, stemming from being a part of the Ramco Group. Equity infusion of Rs. 160.0 crore in the past 20 months has supported the company's capitalisation metrics and liquidity position.

However, the ratings are constrained by the inherent need for continuous investments towards R&D, intense competition in the industry accentuating risk of employee attrition, its working capital-intensive nature of operations and its vulnerability to changes in domestic and foreign government policies affecting the IT industry at large. Additionally, the company's earnings remain susceptible to exchange rate volatility.

Key rating drivers and their description

Credit strengths

Extensive track record of nearly three decades and established presence in the ERP segment – Incorporated in 1997, RSL offers customised global payroll, logistics, SRP, and EAM services for various industries. It has developed considerable expertise in catering to the aviation sector and has also forayed into the US defence sector. Additionally, the company's shift towards a

subscription-based business model from a deferred licensing model has led to better cashflow generation and a reduction in unbilled revenues.

Diversified customer base of reputed companies – The company has an established clientele of reputed companies, including Fortune 500 companies from diverse sectors. RSL enjoys high customer diversification (as the top 10 clients accounted for 19% of its revenues in FY2024) with repeat orders from large clients, including industry majors, even as it continues to add a healthy number of new customers every year. RSL added 25 new clients in FY2024, with 8% of the overall revenues accruing from its new customers. ICRA expects the company to consistently add new clients on the back of its extensive track record of operations and niche product offerings in the aviation sector.

Financial flexibility as part of the Ramco Group – The Ramco Group of companies has diversified interests in cement, cotton, synthetic yarn, building products, software solutions, clean energy, and biotechnology, among other sectors. RSL derives financial flexibility by being part of the Ramco Group. ICRA notes that the equity infusion of Rs. 160.0 crore in the past 20 months has supported the company's capitalisation metrics and liquidity position.

Comfortable capital structure – RSL's debt profile includes Rs. 62.7 crore of lease liabilities and no other external borrowings as on March 31, 2024. The company has raised funds to the tune of Rs. 160.0 crore over the last 20 months (from which Rs. 30.0 crore equity has been infused in July 2024), which shored up the net worth base against losses. Accordingly, the capital structure remained healthy, marked by gearing of 0.2 times and TOL/TNW of 1.0 times as on March 31, 2024. While the working capital debt is likely to increase marginally in the near term, capital structure is expected to remain comfortable going forward.

Credit challenges

Net losses amid higher fixed costs; sharp improvement in scale and margins remains critical – In FY2024, the company reported an operating income of Rs. 527.3 crore (7% YoY growth) with a net loss of Rs. 241.7 crore. RSL conducted a strategic review of its operations, considering various factors such as project viability, recoverability of old receivables, identification and exiting unprofitable segments, renewed focus on customer profiling and country-specific risks. Based on this review, it made a provision of Rs. 128.9 crore in FY2024. Receivable days, which were high earlier at 261 days as on March 31, 2023 owing to sizeable unbilled revenues, declined to 85 days post the provisioning of FY2024. This, coupled with a slower-than-expected rebound in revenues, resulted in sharp losses for the fiscal. In Q1 FY2025, the company achieved revenues of Rs. 137.0 crore (4.4% QoQ growth), while the margin improved to 2.5% on account of reduced forex fluctuation losses and the company's continuous cost optimisation measures. ICRA expects RSL's revenues and operating margins to improve in FY2025 owing to its healthy order book. However, due to the company's high fixed costs, it is expected to continue incurring net losses in the current fiscal. Further, the company's ability to secure more deals and manage implementation risks remains a key monitorable.

High competitive intensity; vulnerable to industry risks such as employee attrition and adverse changes in Government policies – RSL faces intense competition from large established players, which limits its pricing flexibility and puts pressure on its margins. The company is also exposed to broader IT industry risks such as global demand slowdown, high employee attrition and adverse changes in foreign and domestic Government policies among other factors.

Exposure to forex risk – RSL's profit margins are susceptible to volatility in forex rates and have been impacted by forex gain/(loss) arising from the same in the past. Some of the losses are mark-to-market provisions, which might be reversed subsequently. The company usually tries to mitigate the risk to an extent by timing the receivables from its subsidiaries and repaying the outstanding packing credit (foreign currency) debt using export proceeds in foreign currency.

Environment and Social Risks

Environmental considerations: The exposure to environmental risks remains low for the IT industry. For industry participants, the primary environmental impact arises from their use of electricity to power systems and use of water resources. RSL has been undertaking initiatives, which are expected to have environmental benefits and improve sustainability of the organisation. Some of them include the reduction of carbon footprint by replacing old generators, air conditioners, lifts, and conventional lights with the latest energy efficient equipment; replacing conventional lights across offices with LED lights; and replacing old sanitary fittings with the latest water conserving fittings and sensor taps.

Social considerations: The exposure to social risks is moderate for the IT sector. Given that a sizeable part of the revenue is generated from overseas/international clients and employees are deployed across multiple geographies, RSL remains exposed to various social risks, such as changes in immigration laws and cybersecurity threats. This situation could result in increased employee and administration costs to the company. RSL enhances its cybersecurity by adopting frameworks covering endpoint detection and response (EDR), data level protection (DLP), privileged access management (PAM), zero trust network (ZTN), data encryption at rest and in transit. Data and processes are monitored through security information and event management systems (SIEM) with a robust security governance structure. All these supplement the company's existing information security management system (ISMS) and SOC2 Type II controls. RSL's systems are regularly audited every year by third-party agencies to ensure information security for the services offered through SaaS. The profitability of industry participants, including RSL, remains vulnerable to increase in wage costs. The company has instituted various employee stock option plans (ESOPs) to increase employee commitment and engagement.

Liquidity position: Adequate

RSL's liquidity is adequate, with a buffer in working capital limits (against drawing power) of ~Rs. 44.0 crore, and cash and liquid balances, amounting to Rs. 49.7 crore as on June 30, 2024. The company does not have any term debt repayment obligations, however, it will continue to spend on R&D in FY2025. Additionally, the promoter, Mr. Venkatrama Raja, has infused Rs. 30.0 crore by exercising warrants in July 2024. The company enjoys healthy financial flexibility as part of the Ramco Group, with a demonstrated track record of financial support.

Rating sensitivities

Positive factors - The ratings could be upgraded if there is material improvement in its revenues, earnings and cash flows from operations on the back of timely implementation of projects and healthy order bookings.

Negative factors - The ratings could be downgraded if there is sustained deterioration in the company's earnings and cash flows, weakening its liquidity profile. Any large debt-funded capex in the absence of meaningful improvement in cash accruals could also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for IT-Services
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Ramco Systems Limited. As on March 31, 2024, the company had 19 subsidiaries and an associate, which are all enlisted in Annexure-II.

About the company

RSL was initially set up as a division of Ramco Industries Limited in 1989, before being spun off into an independent entity in 1997. Headquartered in Chennai, RSL is a leading cloud-based technology company with global operations. It provides ERP, HCM and aviation maintenance and engineering (M&E) as well as maintenance repair and overhaul (MRO) software to customers across the globe. It is part of the reputed Ramco Group of companies, a business conglomerate with interests in cement, cotton, synthetic yarn, cement software solutions, clean energy, and biotechnology, among others.

Key financial indicators (audited)

SFPL	FY2023	FY2024
Operating income	492.2	527.3
PAT	-206.9	-241.7
OPBDIT/OI (%)	-26.6%	-26.4%
PAT/OI (%)	-42.0%	-45.8%
Total outside liabilities/Tangible net worth (times)	0.7	1.0
Total debt/OPBDIT (times)	-0.8	-0.5
Interest coverage (times)	-11.6	-17.8

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	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Sep 06, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	15.00	[ICRA]BBB+ (Stable)	Nov 08, 2023	[ICRA]BBB+ (Negative)	-	-	Mar 17, 2022	[ICRA]A (Negative)
				Jun 30, 2023	[ICRA]A- (Negative)	-	-	Apr 29, 2021	[ICRA]A (Stable)
EPC/PCFC/WCDL	Short Term	75.00	[ICRA]A2	Nov 08, 2023	[ICRA]A2	-	-	Mar 17, 2022	[ICRA]A2+
				Jun 30, 2023	[ICRA]A2+	-	-	Apr 29, 2021	[ICRA]A2+
LC/Bank Guarantees	Short Term	20.50	[ICRA]A2	Nov 08, 2023	[ICRA]A2	-	-	Mar 17, 2022	[ICRA]A2+
				Jun 30, 2023	[ICRA]A2+	-	-	Apr 29, 2021	[ICRA]A2+
Unallocated	Long Term/ Short term	39.50	[ICRA]BBB+ (Stable)/ [ICRA]A2	Nov 08, 2023	[ICRA]BBB+ (Negative)/ [ICRA]A2	-	-	Mar 17, 2022	[ICRA]A (Negative)/ [ICRA]A2+
				Jun 30, 2023	[ICRA]A- (Negative)/ [ICRA]A2+	-	-	Apr 29, 2021	[ICRA]A (Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
EPC/PCFC/WCDL	Very simple
LC/Bank Guarantees	Very simple
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: [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	15.00	[ICRA]BBB+(Stable)
NA	EPC/PCFC/WCDL	NA	NA	NA	75.00	[ICRA]A2
NA	LC/BG	NA	NA	NA	20.50	[ICRA]A2
NA	Unallocated	NA	NA	NA	39.50	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	RSL Ownership	Consolidation
Ramco Systems Corporation, USA	98%	Full Consolidation
Ramco Systems Ltd, Switzerland	100%	Full Consolidation
Ramco Systems Sdn. Bhd, Malaysia	100%	Full Consolidation
Ramco Systems Pte. Ltd., Singapore	100%	Full Consolidation
RSL Enterprise Solutions (Pty) Ltd., South Africa	100%	Full Consolidation
Ramco Systems Canada Inc., Canada	98%	Full Consolidation
Ramco Systems FZ-LLC, Dubai	100%	Full Consolidation
RSL Software Co. Ltd., Sudan	100%	Full Consolidation
Ramco Systems Australia Pty Ltd., Australia	100%	Full Consolidation
Ramco Systems Inc., Philippines	100%	Full Consolidation
Ramco Systems (Shanghai) Co. Ltd., China	100%	Full Consolidation
Ramco System Vietnam Company Limited, Vietnam	100%	Full Consolidation
PT Ramco Systems Indonesia, Indonesia	100%	Full Consolidation
Ramco Systems Macau Limited, Macau	100%	Full Consolidation
CityWorks (Pty.) Ltd., South Africa	30%	Equity Method
Ramco Software Japan Limited, Japan	100%	Full Consolidation
Ramco Systems Defense and Security Incorporated, USA	98%	Full Consolidation
Ramco Middle East for Information Technology, Saudi Arabia	100%	Full Consolidation
Ramco System LLC, Qatar	100%	Full Consolidation
Ramco System Korea Company Limited, South Korea	100%	Full Consolidation

Source: RSL financials FY2024; Note: ICRA has taken a consolidated view of the parent (RSL), its subsidiaries and associates while assigning the ratings.

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