



Core Projects and Technologies Limited

ICRA has assigned an LA (pronounced L A) rating to the Rs. 1,800 million (enhanced from Rs. 1,100 million), long-term, fund-based limits of Core Projects and Technologies Limited (CORE). LA is the adequate-credit-quality rating† assigned by ICRA to long-term debt instruments.

The rating reflects the strong market standing of CORE as a provider of software solutions and services to the education industry, which is supported by its extensive domain expertise and wide product portfolio; and the company's robust profitability owing to its product-focussed strategy; moderate financial leverage and the overall favourable outlook for the education sector in India and abroad.

The rating is, however, constrained by the associated risks of successfully integrating the acquired businesses; negative operating cash flows stemming from high receivable days, though the cash flows have seen improvement in FY 2009; and capital expenditure requirements for entry into new segments in the domestic market. Its business models for the domestic market are conceptually sound but are yet to be proven. Nevertheless, ICRA draws comfort from the fact that the company has planned these forays in a structured manner with BOT contracts with prospective State Governments based on funds earmarked for the education sector under the Sarva Shiksha Abhiyan (SSA). CORE is also vulnerable to economic slowdown in its key markets. The risk is largely mitigated,

† For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

as CORE derives about 71% of its total revenues from the education sector, which has witnessed consistent growth during the past 15 years irrespective of economic cycles.

Initially set up as a textile trading company, CORE shifted its focus to Information Technology (IT) in 2004, primarily as a trader of software as well as hardware. During FY 2006-09, the company acquired a number of US- and UK-based IT companies, which enabled it to develop a wide portfolio of software solutions catering to the education sector, in addition to increased market shares in niche domains in these markets. The acquisitions have also improved the overall profitability of CORE, as its business model has transitioned from IT software/hardware trading to implementation of own software products. CORE acquired most of these companies in FY 2008 but demonstrated successful integration to date, with a healthy increase in the profitability of the acquired companies.

CORE is present in three business segments, with the bulk of its revenues (71%) coming from the education domain and the balance from ERP (22%) and Logistics (7%). The revenues of the company have grown at a compounded annual growth rate of 180% during FY 2006-09 on the back of acquisitions as well as robust organic growth.

The strong market position of CORE in the education domain may be attributed to its long-standing customer relationships; legacy issues involved with switching software and extensive domain expertise. Its key customers in this segment include schools & colleges besides Departments of Education of more than 20 US states, most of which

have been using these software solutions for over 8-10 years. As the payment cycle in these institutions extends to 5-6 months, a substantial amount of cash is locked up in receivables, thereby resulting in negative operating cash flows. However, the quality of debtors seems satisfactory, with payments being duly received after the agreed period so far.

CORE has also built a reasonable domain expertise by retaining key personnel in the acquired companies through performance incentives while attrition rates have been maintained at 10%-15%, much lower than the 25%-30% witnessed by IT companies.

CORE has acquired IT companies with established presence in the United Kingdom and United States. The two markets contribute to about 11% and 85%, respectively, to the total revenues of the company, indicating its significant geographical concentration. However, the large exposure of the company to the education sector is a mitigating factor, as education spending in the United States has grown consistently in the past 15 years irrespective of underlying economic cycles. Nonetheless, a slowdown in the ERP and Logistics segment cannot be ruled out.

Despite sizeable retained earnings, the gearing of CORE remains moderate at 0.83 times in FY 2009 and reduced from 0.90 times in FY 2008 mainly due to the conversion of US\$ 6.8 million, Foreign Currency Convertible Bonds (FCCBs) and a part of the warrants to equity. The bulk of the debt (Rs. 1,284 million) comprises the unconverted portion of the FCCBs issued in FY 2008 (due in May 2012) in addition to the debt-funded acquisition of the K-12



division of The Princeton Review (US) in March 2009. The debt coverage metrics are strong on the back of robust operating margins of 33% in FY 2009 and contributed by greater amount of off-shoring; benefits derived from the successful integration of the acquired companies and a favourable USD-INR movement.

In the medium term, CORE plans to increase its presence in the Indian market, primarily through the execution of education projects for the Bihar, Jharkhand and Nagaland State Governments and setting up of mobile teaching centres along with Indira Gandhi National Open University (IGNOU). These projects have seen delays in the past one year on account of procedural issues. However, the fundamental viability of the projects would not be affected as most of these projects are being funded under the SSA. Hence, the funding constraints are not envisaged. Also, the investments of CORE would start only after the contract is signed.

CORE has proposed an infrastructure and training facilities project in Jharkhand to deliver and enhance the quality of education reaching over 61 lakh children and 1.25 lakh teachers. This will cover 48 lakh households and 11,000 schools over 2,100 clusters. This proposal is based on PPP model and will require a total investment of Rs. 2.16 billion over the first year and Rs. 3.52 billion as operational expenditure over five

years. The payment to CORE will be spread out over 10 six monthly periods after the first year of implementation.

CORE has also partnered with IL&FS for a project for the Bihar Government. The responsibility of CORE would be to provide a state-of-the-art data centre; 37 IGNOU Primary Study Centres (PSCs) in Bihar (one in each district of the state) and 400 IGNOU Cluster Resource Centres (CRCs) on Build Own Operate (BOO) basis for six years and then transfer these centres to the Government of Bihar thereafter. The total capital outlay for this project is estimated at Rs. 830 million, which is expected to attract an operational expenditure of Rs. 2.45 billion over six years. CORE would receive payments on a half-yearly basis spread over six years.

CORE has also been awarded contracts for various projects for the State of Nagaland, the major one being the implementation of computer-aided learning programme for schools in the state. The success of these projects would be critical in helping CORE increase its penetration in India.

In FY 2009, the operating income of CORE increased by 52% to Rs. 6,775 million driven largely by acquisitions. The operating margin of the company increased to 33.0% in FY 2009 from 23.6% in the previous year, driven by greater off-shoring; prudent cost management and a

favourable dollar-rupee movement. At the net profit level, the company earned Rs. 1,432 million as compared to Rs. 847.8 million last year, as profit accretion from acquisitions and higher operating margins more than offset the increase in depreciation and interest charges.

In Q1, FY 2010, CORE reported a profit after tax of Rs. 404 million on revenues of Rs. 1,873 million as compared to Rs. 274 million and Rs. 1,594 million, respectively, for the corresponding quarter last year.

Company Profile

Core Projects and Technologies Limited (CORE) was incorporated in 1985 as Akhileshwar Trading Company Ltd. In 2004, the company shifted its focus to software through various overseas acquisitions, thus enabling it to develop a wide portfolio of products catering to the education sector. CORE is currently present in three areas of the IT sector, with the bulk of its FY 2009 revenues (71%) coming from the education domain, and the balance from ERP (22%) and Logistics (7%). As most of the acquired companies were based in the United Kingdom and the United States, these two countries contribute to 11% and 85%, respectively, to the total revenues of CORE.

September 2009



Key Financial Indicators

	31.03.09	31.03.08	31.03.07
Net Sales	6,775.0	4,463.0	1,942.7
Operating Income (OI)	6,775.0	4,463.0	1,942.7
OPBDIT	2,233.8	1,051.1	407.1
Profit After Tax (PAT)	1,432.0	847.8	335.6
Net Cash Accruals (NCA)	1,647.1	873.7	333.0
Total Debt	3,274.7	1,678.3	18.4
Tangible Net Worth	6,110.0	3,875.4	1,042.0
OPBDIT/ OI (%)	33.0%	23.6%	21.0%
PAT/OI (%)	21.1%	19.0%	17.3%
PBIT/ (Total Debt + Net Worth + DTL) (%)	44.0%	52.7%	79.4%
Total Debt/ Net Worth (times)	0.83	0.90	0.02
OPBDIT/ Interest & Financial Charges (times)	10.3	39.8	22.7
(GCF + Interest)/ Interest (times)	(0.9)	(24.1)	3.6
NCA/ Total Debt (%)	50%	52%	1809%
Total Debt/ OPBDIT (times)	1.5	1.6	0.1
Debtor Days	164	161	105
Inventory Days	83	5	4
Creditor Days	28	93	91

Note: Amounts in Rs. Million; OPBDIT: Operating Profit before Depreciation Interest & Tax; PBIT: Profit before Interest & Tax; DTL: Deferred Tax Liability; GCF: Gross Cash Flows

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