

## CMS IT Services Private Limited

December 14, 2017

### Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Action
Fund based- Working Capital Facilities	40.0	[ICRA]BBB-& ; placed on under watch with developing implications
Non-fund based-Working Capital Facilities	80.0	[ICRA]A3& ; placed on watch with developing implications
Fund Based/ Non- fund based- Interchangeable	20.0	[ICRA]BBB-& / [ICRA]A3&; placed on watch with developing implications
<b>Total</b>	<b>140.0</b>	

### Material Event: Proposed change of shareholding pattern of CMS IT Services Private Limited (CMS / the company)

#### Rating Action

ICRA has placed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) outstanding on the Rs. 40.0 crore fund based limits and short term rating of [ICRA]A3 (pronounced ICRA A three) outstanding on the Rs. 80.0 crore<sup>1</sup> non-fund based facilities of CMS<sup>2</sup> on 'watch with developing implications'. ICRA has also placed the ratings of [ICRA]BBB-/ [ICRA] A3 to Rs. 20.0 of Long Term/ Short Term fund based/ non- fund based interchangeable limits of the company on 'watch with developing implications'.

#### Rationale

The rating watch follows the proposed change in shareholding pattern of CMS wherein 56.7% stake in the company is expected to be transferred to a new PE player Florintree Advisors from PE Blackstone Group. Going forward, ICRA will continue to monitor the proposed change in shareholding pattern and implications of the same on CMS's credit profile.

#### Outlook: Ratings under watch with developing implications

ICRA believes CMS will continue to benefit from the experienced management team and healthy order book position. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability with improved working capital management strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, the company fails to reach its revenue potential or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Experienced management team:** The company's management team has extensive experience in the industry, enabling the company with focused guidance. ICRA also notes that, the company has recently won some large, value-accretive deals while competing against large players such as TCS, Wipro and IBM.

**Healthy order book and management's focus on diversifying service business:** In line with the company's focus to diversify in the Services segment, the company won new orders worth Rs. 131.8 crore during H1FY2018 (57% of total new deal wins during the same period) in the segment. Overall, with new deal wins of Rs. 231.1 crore during H1FY2018, the company continues to maintain a healthy order book.

**Financial profile characterised by improving profitability:** The company witnessed a growth of 8.5% (YoY on annualised basis) in revenue during H1FY2018 with operating margin improving by 250 bps from -0.7% in FY2017 to 1.8% in H1FY2018. Net profit margins improved from -2.2% during FY2017 to 0.2% in H1FY2018.

### Credit weaknesses

**Small scale of operations with focused on Indian markets:** Relatively small scale of operations restricts ability to secure large orders, limits scale benefits, bargaining power with its customers and pricing flexibility to a certain extent, thereby restricting margins. The company functions primarily in India with less than 10% of its revenues from export markets. Going forward, backed by its order wins in margin accretive deals, the company is expected to grow in scale and market share.

**High working capital intensity resulting from stretched debtor days:** Although the company has improved its debtor days from 116 days as on March 31, 2017 to 105 days as on September 2017, the working capital cycle continues to remain stretched.

**Stretched cash flow position:** Cash flows for the company remain stretched with negative free cash flow of Rs. 7.7 crore as on September 30, 2017. With improvement in OPBDITA and no major capital expenditure, cash flows are expected to improve going forward.

**Margin pressures arising from wage inflation, competitive pressures and relatively high attrition levels:** The company is in a relatively nascent stage of operations with relatively low scale of operations and high employee cost (40.9% of total cost for the company during H1FY2018) due to its highly experienced management.

The previous detailed rating rationale is available on the following link: [Click here](#)

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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.

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For more information, visit [www.icra.in](http://www.icra.in)

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