Trigyn Technologies Ltd.

June 21, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term: Non Fund based	2.20	[ICRA]BBB+(Stable) / [ICRA]A2; assigned
Long-term / Short-term: Unallocated limits	22.80	[ICRA]BBB+(Stable) / [ICRA]A2; assigned
Total	**25.00**	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) and the short-term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs. 2.20-crore[1] long-term / short-term non-fund based limits and the Rs. 22.80-crore unallocated limits of Trigyn Technologies Limited (TTL or the company)[2]. The outlook on the long-term rating is Stable.

Rationale

ICRA has taken a consolidated view of TTL and Trigyn Technologies Inc., USA, its wholly-owned subsidiary, in view of the significant operational synergies between them.

The assigned ratings take into account the extensive track record of the promoters spanning over three decades in the information technology industry. ICRA notes the company's reputed and established customer base ensuring significant repeat business and healthy financial profile as reflected by its adequate profitability margins, comfortable capital structure with no outstanding debt and healthy coverage indicators. The ratings also draw comfort from TTL's strong liquidity position as evidenced by its healthy free cash balance of over Rs. 160 crore as on March 31, 2018.

The ratings, however, are constrained by the weak financial profile of United Telecoms Limited (UTL), which is the largest shareholder with 47% stake in TTL, with a history of irregularities in debt servicing. The ratings are also constrained due to the vulnerability of its profits to fluctuations in foreign exchange with no formal hedging policy in place, commoditisation of software services business, and the intense competition in the IT outsourcing business with presence of numerous large and mid-sized players.

Outlook: Stable

ICRA believes TTL will continue to benefit from the extensive experience of its promoters and the established presence of the company in the information technology (IT) services space. The outlook may be revised to Positive if there is a notable improvement in the financial profile of UTL, coupled with healthy improvement in revenue and profitability strengthening TTL's financial risk profile. The outlook may be revised to Negative if withdrawal of profits by way of dividends, mainly to support UTL, given its weak financial position or lower-than-anticipated cash generation, or considerable de-growth in

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA Rating Publications*

revenues or profitability, or any further write-off from its overseas subsidiaries as witnessed in the past, weakens the liquidity.

Key rating drivers

Credit strengths

Extensive track record of the promoters in the IT industry - TTL was incorporated in 1986 by three software professionals— Mr. Ramkrishna Bhagwat, Mr. Atul Kamath and Mr. Tushar Vaidya, before being taken over by UTL in 2006. The promoters have a vast experience and an established track record for over three decades in the IT services industry.

Reputed customer base with significant repeat business - The company has established strong relationships with its key clientele, which includes international organisations like the United Nations Group (including its sister associations) and local and state governments, mainly in the US, which helps it generate repeat business year-on-year. It derives 85% of its revenues from Government contracts while the rest is generated from private corporations.

Healthy financial risk profile characterised by comfortable capitalisation and coverage indicators and strong liquidity position - At a consolidated level, TTL's operating income (OI) has grown at a healthy CAGR[3] of 8.7% to Rs. 684.5 crore in FY2018 from Rs. 451.7 crore in FY2014. The profitability has remained stable and healthy with the operating margins in the range of 7-9% and the net margins of 5-6% over the last five years. The company, at a standalone as well as consolidated levels, does not have any debt, resulting in strong capitalisation and coverage indicators. Further, the liquidity position also remains healthy as evidenced from high unencumbered cash and bank balance of over Rs. 160 crore as on March 31, 2018 at the consolidated level. ICRA however notes the impact on net-worth of the company compared to pre-2006 era due to accumulated losses from write-down in value of investments in wound-up foreign subsidiaries.

Diversification into Indian markets with contracts valuing ~Rs. 390 crore - In the domestic market, TTL has won contracts from the state governments of Andhra Pradesh and Jharkhand for setting up virtual classrooms in over 4,000 schools across each state, valued at ~Rs. 360 crore. These contracts will be executed in phases over three to five years. The company has also received a contract from a leading private sector bank for setting up its IT infrastructure and related software for connecting its branches over a network, valued at ~Rs. 30 crore. The outstanding order book provides healthy near-to-medium term revenue visibility.

Credit challenges

Weak financial position of UTL with a history of delays in debt servicing - UTL, the largest shareholder in TTL with a 47% stake, continues to remain under financial stress. Of the 47% stake, 10.01% is pledged by the promoter to its lender, thereby affecting its share price and in turn its market capitalisation in an event of delay or default in servicing its financial obligations. Further, the risk remains in terms of dividend payments to UTL by TTL, going forward, and hence will remain a key rating sensitivity.

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[3] *CAGR: Compounded Annual Growth Rate*

Exposure of operations and profitability to foreign exchange rate fluctuations - Since the company is in the software export business, it derives its revenues mainly in US dollar terms. In the absence of any active hedging policy in place, the operations and profitability remain exposed to adverse fluctuations in foreign exchange rate. Nonetheless, the risk is mitigated to a significant extent since a part of its cost, mainly employee expenses, is in US dollar terms, which provides a natural hedge.

Intense competition in the IT outsourcing industry exerts pricing pressures - The IT outsourcing industry is characterised by uncertainty on account of lower crude oil prices, high volatility in major currencies and lower demand across the industries. TTL also faces different levels of competition in each segment from the domestic as well as multinational companies. Nonetheless, TTL has established a strong brand goodwill in the market and a strong foothold in the IT and ITeS sector.

Risks related to commoditisation of offshore software services business - The company's profitability and billing rates continue to remain under pressure, given the commoditised nature of its services, intensified by increasing competition from larger established players.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Entities in the Information Technology (Services) Industry

About the company:

TTL, earlier known as Leading Edge Systems Ltd, was incorporated on March 25, 1986 in Maharashtra as a private limited company. It was converted into a public limited company on August 8, 1994. Trigyn Technologies is an innovative, software-led solutions provider and systems integrator providing IT solutions and services to global clients. TTL's offshore software development centre is located in Mumbai, while it operates in the US through its wholly-owned subsidiary, Trigyn Technologies Inc., headquartered in Edison, New Jersey. It has offices in New York City, Washington DC, Toronto (Canada), Montreal (Canada) and Solothurn (Switzerland). The company offers a comprehensive range of service offerings including offshore development and maintenance solutions and services, staff augmentation, managed services, and business process outsourcing.

On a consolidated basis, TTL reported a profit after tax (PAT) of Rs. 39.47 crore on an OI of Rs. 684.51 crore in FY2018 over a PAT of Rs. 39.04 crore on an OI of Rs. 679.15 crore in FY2017.

Key financial indicators

	FY2016 (Audited)	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	624.54	679.15	684.51
PAT (Rs. crore)	38.35	39.04	39.47
OPBDIT/ OI (%)	9.85%	9.91%	8.94%
RoCE (%)	23.68%	21.78%	17.36%
Total Debt/ TNW (times)	0.00	0.00	0.00
Total Debt/ OPBDIT (times)	0.00	0.01	0.01
Interest Coverage (times)	47.33	73.14	76.53

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date &Rating June 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Bank Guarantee	Long-term / Short-term	2.20	-	[ICRA]BBB+ (Stable) / [ICRA]A2	-	-	-
2	Unallocated	Long-term / Short-term	22.80	-	[ICRA]BBB+ (Stable) / [ICRA]A2	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee	-	-	-	2.20	[ICRA]BBB+ (Stable) / [ICRA]A2
NA	Unallocated limits	-	-	-	22.80	[ICRA]BBB+ (Stable) / [ICRA]A2

Source: TTL

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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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