

September 26, 2019

Genisys Information Systems (India) Private Limited: Ratings upgraded to [ICRA]BB(Stable)/A4+; removed from Issuer Non-Cooperating Category

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long term- Term Loans	5.31	2.31	[ICRA]BB (Stable) upgraded from [ICRA]BB- (Stable); removed from Issuer Non-Cooperation
Long Term- Cash Credit	9.00	12.00	[ICRA]BB (Stable) upgraded from [ICRA]BB- (Stable); removed from Issuer Non-Cooperation
Short Term – Non-fund based	1.50	1.50	[ICRA]A4+; upgraded from [ICRA]A4; removed from Issuer Non-Cooperation
Total	15.81	15.81	

Rationale

The ratings upgrade takes into account the significant improvement in the financial risk profile of Genisys Information Systems (India) Private Limited (GSIPL) in FY2019 with healthy growth in revenues and significant improvement in profitability. The ratings also consider the considerable improvement in the capital structure and coverage indicators on account of healthy accretion to reserves in FY2019. The ratings positively factor the extensive experience of the promoters in the IT industry with a strong management team and renowned client base. Besides, the ratings take into consideration the diversification of revenues across various service offerings like software services, BPO, package implementation and consulting.

The ratings are however constrained by modest scale of operations and the high competitive intensity in the IT industry with the presence of larger and established domestic and international players, restricting the pricing flexibility of the company. The ratings also factor the moderate customer concentration of GSIPL with top 5 customers accounting for about 51% of the total revenues in FY2019, accentuating the risk of order volatility. GSIPL is also exposed to foreign currency risk due to significant revenue contribution from exports.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that GSIPL will continue to benefit from the extensive experience of the promoters in the IT industry.

Key rating drivers

Credit strengths

Extensive experience and strong background of the promoters in the IT industry– Genisys Group is promoted by Mr. Ashok J Rabheru who has over three decades of experience in the IT industry. He has worked with multinational companies previously and is also a trustee of the Duke of Edinburgh's scheme.

Significant improvement in financial risk profile in FY2019 – The company's revenues grew by 55% in FY2019 to Rs 73.2 crore from Rs. 47.3 crore due to addition of new customers and new projects from existing customers across all its divisions. The profitability at the operating level improved to 10.5% from 4.0% in FY2018 due to better absorption of fixed costs. The capital structure also improved in FY2019 with a gearing at 0.6 times as on March 31, 2019 as against 1.2 times as on March 31, 2018, aided by healthy accretion to reserves. The coverage indicators also improved in FY2019 with Total Debt/OPBITDA and interest coverage at 1.1 times and 7.3 times respectively, which improved from 6.5 times and 1.8 times in FY2018 respectively.

Diversified revenue stream across verticals coupled with renowned customer base – The company largely derives its revenue from software services followed by BPO services and consulting division. Some of the key customers of GSIPL are Liberty Travel, RBS, Duke of Edinburgh, Asian Paints, IBM and Volkswagen Group, which mitigate counter party credit risk to a large extent.

Credit challenges

Modest scale of operations and high competitive intensity in the IT industry – The scale of operations of the company remains modest with revenues of Rs 73.2 crore in FY2019 and net worth of Rs 14.5 crore as on March 31, 2019. Intense competition in the IT industry where there are many large and established domestic and international players, restricts the company's pricing flexibility and growth prospects.

Moderate customer concentration risk – The top 5 customers account for around 51% of the total revenues in FY2019 indicating moderate customer concentration risk. Moreover, the service contract period usually has a tenor of 3 years and timely acquisition of new clients remains critical to maintain the topline.

Exposure to foreign currency risk – A significant portion of revenues comes from GSIPL's US and UK region which renders the company's income susceptible to foreign currency fluctuation risks. However, the proportion of revenues from the US and UK region have come down in FY2019. The exposure on the receivables is partly mitigated through the use of foreign currency working capital borrowings.

Liquidity Position: Adequate

The fund flow from operations improved significantly to Rs 5.15 crore in FY2019 from Rs 0.55 crore in FY2018 due to healthy increase in operating profits. Free cash flows also remained positive in FY2019 despite increased working capital requirements. Though, the working capital utilisation remained high at 86% from the period April 2018 to May 2019, the liquidity position is **adequate** as GSIPL has cash balances and liquid investments to the tune of Rs 4.2 crore as on March 31, 2019. Going forward, the cash flows are expected to remain healthy to meet the debt repayment obligations.

Rating Sensitivities

Positive Triggers- ICRA could upgrade GSIPL's ratings if the company is able to sustain its healthy revenue growth aided by diversification of its client base, while maintaining healthy profitability and coverage indicators.

Negative Triggers- Negative pressure could arise if there is degrowth in revenues or decline in profitability in the near term. The company's Total Debt/OPBDITA becoming greater than 4.0 times and Interest coverage ratio becoming less than 2.0 times on a sustained basis could lead to downward revision in the ratings.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (IT) Services Industry
Parent/Group Support	NA
Consolidation / Standalone	The ratings are based on the standalone financials of the issuer.

About the company:

Genisys Information Systems (India) Private Limited: Incorporated in 2005, GISPL is an Information Technology company engaged in providing software services, package implementation, consulting and BPO services. Headquartered in Bangalore, the company is part of Genisys Group which is a privately held technology group comprising of GISPL, Genisys Integrating Systems (India) Private Limited (GIPL), Genisys UK (one marketing and one delivery center) and Genisys USA (one marketing office). The group is headed by Mr. Ashok J Rabheru and he along with his family holds the entire equity stake in the group. The company is primarily engaged in IT services and offers key services like application management, business intelligence, data warehousing, system integration, application maintenance, testing, consulting and BPO services to small, medium as well as large firms mainly in USA, India and UK.

In FY2019 (based on provisional figures), the company reported a net profit of Rs. 4.4 crore on an operating income of Rs. 73.2 crore compared to a net profit of Rs. 0.5-crore on an operating income of Rs. 47.3 crore in the previous year.

Key Financial Indicators

	FY2018	FY2019P
Operating Income (Rs. crore)	47.3	73.2
PAT (Rs. crore)	0.5	4.4
OPBDIT/ OI (%)	4.0%	10.5%
RoCE (%)	6.9%	30.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	1.3
Total Debt/ OPBDIT (times)	6.5	1.1
Interest coverage (times)	1.8	7.3
DSCR	1.1	4.0

P: Provisional;

Source: *Genisys Information Systems (India) Private Limited and ICRA research*

Status of non-cooperation with previous CRA: ACUITE BB (Stable)/A4+ had moved the company to Issuer Non Cooperation on March 11, 2019 as the company failed to submit information for surveillance before due date

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 2019 (Rs Crore)	Date & Rating 26-Sep-2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Term Loan	3.00	1.99	[ICRA]BB (Stable)	28-Jun-2018 [ICRA]BB- (Stable); ISSUER NOT COOPERATING *	-	[ICRA]BB- (Stable)
2	Cash Credit	12.00	-	[ICRA]BB (Stable)	[ICRA]BB- (Stable); ISSUER NOT COOPERATING *	-	[ICRA]BB- (Stable)
3	Non Fund based facility	1.50	-	[ICRA]A4+	[ICRA]A4; ISSUER NOT COOPERATING *	-	[ICRA]A4

*Issuer did not cooperate; based on best available information

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	Long Term- Term Loan	April 2017	-	March 2021	3.00	[ICRA]BB (Stable)
NA	Long Term- Cash Credit	-	-	-	12.00	[ICRA]BB (Stable)
NA	Short Term-Non-fund based	-	-	-	1.50	[ICRA]A4+

Source: GISPL

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