

February 04, 2020

Joulestowatts Business Solutions Pvt Ltd: Ratings of [ICRA]BBB-(Stable)/A3 assigned

Summary of rated instruments

Instrument*	Current Rated Amount(Rs. crore)	Rating Action
Long Term - Term Loan	0.40	[ICRA]BBB-(Stable); Assigned
Short Term - Working Capital Facilities	14.20	[ICRA]A3; Assigned
Long Term/Short Term – Unallocated	10.40	[ICRA]BBB-(Stable)/A3; Assigned
Total	25.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating considers the extensive experience of the promoters of Joulestowatts Business Solutions Pvt Ltd (JBSPL) in the IT staffing industry and established client base comprising of top companies across IT and BFSI industries. The rating also factors in the comfortable financial profile, characterized by healthy return indicators. The rating is also supported by the healthy revenue growth demonstrated by the company in the recent past, and the increasing demand for flexi-staffing among IT companies which supports its growth prospects going forward. The rating, however, remains constrained by JBSPL's moderate scale of operations, coupled with moderate client concentration risk. The rating remains inhibited due to increase in debt-levels leading to moderation in capital structure and coverage indicators in H1 FY2020. ICRA also takes note of the exit option available to the compulsorily convertible preference shares (CCPS) investors, through buy back by the company in FY2021, and the same remains a key rating sensitivity.

The stable outlook reflects ICRA's expectation that JBSPL will continue to benefit from extensive experience of the promoters coupled with reputed client base with high proportion of repeat orders, leading to healthy revenue visibility.

Key rating drivers

Credit strengths

Vast experience of the promoters and strong management team: JBSPL was established by Mrs. Priti Sawant, who has over two decades' experience in IT contract staffing business. Before starting JBSPL, she served as CEO of Magna Infotech, an IT contract staffing company. The other board members are Mr. S. Vaitheeswaran who serves as a group CEO of Manipal Education & Medical Group and Mrs. Usha Amin, who is a partner of SAHA FUND, a venture capital fund which invests in early stage startups promoting women entrepreneurship and employment, diversity and technology.

Established client base comprising top companies across IT and BFSI industries: The company has an established client base consisting of reputed clients across IT and BFSI industries which ensures stability of revenues and timely cash flows mitigating counterparty risk to a large extent.

Comfortable financial profile characterized by healthy return indicators: The return on capital employed (ROCE) of the company has remained strong because of asset light business operations of the company and stood at 45.09% in FY2019.

The operating margins remained healthy at around 9-11% in FY2018 and FY2019. The healthy profitability has resulted in adequate coverage indicators.

Increasing demand for flexi-staffing among IT companies provides long term growth prospects: Due to evolving market conditions and technological disruption where companies have to chart their talent demands, temporary staffing is fast emerging as a key hiring strategy, especially in the IT/ITes industry, and is expected to increase its penetration significantly. The increasing demand is expected to enhance the growth prospects of the company.

Credit challenges

Moderate scale of operations with high concentration on IT-ITeS segment: With a turnover of Rs. 143.17 crore in FY2019, the company's scale of operations remains moderate, restricting the competitive position as against other established large players in the industry. The net worth base of the company remains relatively low, restricting its financial flexibility. The company's service offering remains limited with high focus on the IT/ITeS segment, as customer from this segment contributed to around ~70% of the revenues in FY2019. However, ICRA notes that the company has achieved healthy revenue growth since inception and expects it to continue the strong growth over the near to medium term.

Increase in debt levels leading to weakened capital structure and coverage indicators in H1 FY2020: The total debt of the company has risen due to increasing working capital requirements with increasing scale of operations. The capital structure moderated, with the gearing of the company increasing to 1.48 times as on September 30, 2019 from 1.10 times as on March 31, 2019. This apart, the operating margins witnessed a decline to 6.6% in H1 FY2020, from 9.1% in FY2019. As a result, the Total Debt/OPBDITA increased from 1.44 times in FY2019 to 2.58 times in H1 FY2020 and the interest coverage decreased from 5.1 times in FY2019 to 2.85 in H1 FY2020. However, ICRA notes that the margins are lower in the first half of the year, and the same is expected to improve in the second half.

Moderate customer concentration risk: Despite customer tally steadily increased from 16 in FY2016 to 121 in FY2019, the company derived 52.5% of its revenues from its top 5 clients in FY2019, indicating moderate client concentration risk. However, the revenue growth of the company is largely driven by repeat business from the existing clients, indicating high satisfaction from existing customers, and the same is likely to support revenue stability going forward.

Liquidity Position: Adequate

The company has external term loans of Rs. 5.98 crore on its books as on March 31, 2019; of which Rs. 2.9 crore is to be repaid in FY2020 and Rs. 2.3 crore is to be paid during FY2021. The company's cash flows are expected to remain adequate for debt servicing. The average utilisation of fund-based limits remains moderate at ~84.2% for the period November 2018 to November 2019, and the enhancement in the limits by Rs. 2.5 crore in December 2019 is expected to provide adequate buffer for any contingencies. Going forward, the healthy operating margins are expected to support the cash flows, and the same is estimated to be adequate to meet the debt repayment obligations and margin money requirements for the additional working capital limits.

Rating Sensitivities

Positive triggers – ICRA could upgrade the ratings if the company is able to sustain its revenue growth while maintaining the profitability, improving the capital structure and maintaining adequate liquidity by managing its working capital efficiently. Specific credit metrics that could lead to an upgrade would be TOL/TNW<2 on a sustained basis.

Negative Triggers – ICRA could downgrade the ratings if any increase in debt levels or decline in margins lead to weakening of coverage indicators. Specific credit metrics that could lead to a downgrade are: 1) Interest coverage less than 2.8 times or 2) TD/OPBIDTA greater than 3 times. Any tightening of liquidity position, caused by increase in working capital requirements or cash outflow towards buy back of shares, could also trigger a downgrade.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	ICRA has considered the consolidated financial statements of JBSPL along with its wholly owned subsidiary Joulestowatts Consulting Inc.

About the company:

Incorporated in the year 2014, Joulestowatts Business Solution Pvt Ltd (JBSPL), is talent management firm that provides flexi-staffing solutions in the Information Technology (IT) and IT enabled Services (ITeS) industry. JBSPL recruit's employees on its role and sends them to the client locations to work for them on contract basis. The company operates out of 7 offices across India with 396 core employees. As of September 2019, JBSPL had 2857 associates and has served over 135 clients. The company has a subsidiary – Joulestowatts Consulting INC, which caters to the US market.

In H1 FY2020 (based on provisional financials), the company reported a profit after tax (PAT) of Rs. 2.5 crore on an operating income (OI) of Rs. 84.6 crore compared to a PAT of Rs. 7.16 crore on an OI of Rs. 143.17 crore in FY2019.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	H1 FY2020 (Prov)
Operating Income (Rs. crore)	75.6	143.17	84.16
PAT (Rs. crore)	5.4	7.2	2.5
OPBDITA/ OI (%)	11.4%	9.1%	6.7%
RoCE (%)	60.1%	45.9%	26.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	2.3	2.4
Total Debt/OPBDITA (times)	1.3	1.4	2.6
Interest Coverage (times)	7.2	5.1	2.9
DSCR	5.3	2.8	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument Type	Amount Rated (Rs. crore)	Current Rating (FY2020)		Chronology of Rating History for the past 3 years		
		Amount Outstanding as on September 2019 (Rs. crore)	February 04, 2020	FY2019	FY2018	FY2017
1 Term Loan Long Term	0.40	0.40	[ICRA]BBB-(Stable)	-	-	-
2 Fund Based Short Term	14.20		[ICRA]A3	-	-	-
3 Unallocated Long Term/Short Term	10.40		[ICRA]BBB-(Stable)/A3	-	-	-
Total	25.00			-	-	-

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	Bill Discounting	NA	NA	NA	14.20	[ICRA]A3
NA	Term Loan	Nov-2018	NA	Dec-2021	0.40	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	10.40	[ICRA]BBB-(Stable)/A3

Source: Joulestowatts Business Solution Pvt Ltd

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