April 29, 2021

Ramco Systems Limited: Long-term rating upgraded to [ICRA]A(Stable); outlook revised to Stable; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based/CC	35.00	35.00	Upgraded to [ICRA]A from [ICRA]A-; Outlook revised to Stable from Positive
Long-term Fund-based/Term Loan	10.00	0.00	-
Short-term, Fund-based	137.50	137.50	[ICRA]A2+; reaffirmed
Short-term, Non-fund Based	30.50	30.50	[ICRA]A2+; reaffirmed
Unallocated	1.50	11.50	Upgraded to [ICRA]A from [ICRA]A-; Outlook revised to Stable from Positive; [ICRA]A2+; reaffirmed
Total	**214.50**	**214.50**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade considers the continued healthy orders in 9MFY2021, despite the impact of Covid-19, and the improvement in financial performance during the period, aided by improved order execution and cost saving measures adopted by Ramco Systems Limited. While some of the cost savings were due to lower travel related expenses and changes in the implementation model, given the restrictions during the pandemic, some of these benefits are expected to sustain, thereby benefiting the company. ICRA also takes note of the traction witnessed in the aviation sector orders, which should provide diversification benefits. The ratings also consider the extensive track record of Ramco Systems Limited (RSL), its established presence in the enterprise resource planning (ERP) business, and its long-term association with clientele of leading global companies across diversified verticals. ICRA also notes the favourable long-term demand outlook for ERP products, especially for cloud-based solutions, and the financial flexibility arising from being part of the Ramco Group, and the Group's demonstrated history of financial support The company has expanded its presence across geographies and diversified into other segments, leading to an improvement in order size in last few years. Further, the company has been shifting from an on-premise model to a cloud-based model and the increasing share of cloud-based orders is expected to aid the company to gain market share in a competitive market. Nonetheless, there has also been an increase in unbilled revenue because of RSL providing an extended credit period to some customers, wherein the license fee is recognised upfront. With growing orderbook and increasing unbilled revenues, the working capital requirements had increased, leading to higher debt utilisation levels during FY2018 to FY2020. However, with improved cash accruals in current fiscal, the working capital debt utilisation level has declined (Rs. 86.3 Crore as on March 31, 2020 to Rs. 11.8 Crore as on December 31, 2020). Moreover, the capitalisation and coverage metrics have remained healthy during the last few years.

ICRA also takes note of RSL's high research and development (R&D) requirements that necessitate continuous investments, which are capitalised and result in high amortisation expenses. The ratings remain constrained by competition from much larger players in the segment, high working capital intensive operations, susceptibility to exchange rate volatility, risk of employee attrition and vulnerability to changes in policies of domestic and foreign governments for the IT industry at large.

The stable outlook reflects ICRA's belief that RSL will continue to generate healthy revenue growth, supported by robust order flow with the operating margins witnessing further improvement.

Key rating drivers and their description

Credit strengths

Extensive track record of nearly three decades and established presence in the ERP segment - Incorporated in 1997, RSL offers various software solutions including customised Global Payroll, logistics and Enterprise Asset Management (EAM) for various industries and has developed considerable expertise in catering to the aviation sector, which includes Heli operators and Maintenance, Repair, and Overhaul (MRO) segment and foray into the US defense sector as well. The overall growth prospects for both the domestic and global cloud-based ERP segment remain favourable, on the back of increasing demand from large corporate entities.

Diversified customer base of reputed companies – The company has an established clientele of reputed companies from diverse sectors. RSL enjoys very high customer diversification with repeat orders from large clients, including industry majors, even as the company continues to add a healthy number of new customers every year. However, while its overall order inflows remained healthy, new customer addition in FY2020 and 9MFY2021 witnessed some moderation due to RSL's focus on higher value orders.

Financial flexibility as part of the Ramco Group – The Ramco Group of companies has diversified interests in cement, cotton, synthetic yarn, building products, software solutions, clean energy and biotechnology, among other sectors. RSL has considerable financial flexibility as its lenders are a part of the Ramco Group. There has also been a demonstrated track record of financial support from the Group in the past.

Comfortable capital structure – RSL's debt profile (consolidated) consists of mainly working capital debt, which witnessed an increase to Rs. 86 crore as on March 31, 2020 from Rs. 82 crore as on March 31, 2019 and ~Rs 38 crore as on March 31, 2018, mainly driven by rise in unbilled revenues in recent fiscals, owing to the nature of deferred payment contracts. However, working capital debt reduced to Rs. 41 crore as on September 30, 2020 and further to Rs 12 Crore as on December 31, 2020 because of improved cash accruals during the year. Accordingly, the capital structure and coverage indicators remained healthy, with reported gearing of 0.19 time (0.08 time adj for IndAS 116) as on September 30, 2020 and 0.28 time (0.16 time adj for IndAS 116) as on March 31, 2020 compared to 0.14 time as on March 31, 2019 at consolidated level, while the gearing adjusted for long-term unbilled revenues and IndAS 116 was at 0.21 time as on March 31, 2020 compared to 0.19 time as on March 31, 2019.

Healthy order book position ensures revenue visibility – The company has received healthy orders across its business segments during the last few fiscals, especially for global payroll solutions in the HCM segment and logistics solutions in the ERP segment. In 9MFY2021, the company witnessed an 102% YoY growth in order booking from the aviation segment driven by orders from the defence segment. The unexecuted order book stood at $178 million as on December 31, 2020 (compared to $167 million as on March 31, 2020) at a robust 2.76 times of 12-month trailing revenues of the company. This indicates healthy revenue visibility in the near to medium term. Nonetheless, ICRA notes the reversal of orders of ~$8.91 million in FY2020, mainly related to old slow-moving orders. Any further large reversals remain a sensitivity factor and will be monitored.

Credit challenges

High competitive intensity – RSL faces intense competition from large established players such as SAP SE, Oracle Corporation for its core ERP business and Netsuite Inc for its HR and payroll business. The intense competition limits RSL's pricing flexibility and puts pressure on its margins. Recently the company has partnered with Oracle and Workday to offer its global payroll solutions. Ramco Systems Limited has entered into partnerships in the US to explore opportunities in the US defence segment.

Exposure to forex risk – RSL's profit margins are susceptible to volatility in forex rates and have been impacted by forex gain/ (loss) arising from the same in the past. Some of the losses may be just mark-to-market provisions, which might be reversed subsequently. The company tries to mitigate the risk to some extent by timing the receivables from its subsidiaries and also by repaying the outstanding PCFC debt using exports proceeds.

High working capital intensity resulting from high receivables and unbilled revenues - The company's operations are working capital intensive because of high debtor days (90-100 days). The working capital profile of the company also consists of considerable unbilled revenues. The increase in unbilled revenues in recent years has been because of the company providing extended credit period (as per the business model) in several cases in respect to license fees, which would become due for payment over a period ranging up to 60 months. As a result, the working capital intensity of the company remains moderately high in the range of 35–40% levels. Any large bad debt write-offs (compared to normalised levels) remains a sensitivity factor.

High R&D spend – RSL incurs significant capex every year mainly towards R&D expenses, which is capitalised. This R&D expenditure, if debt-funded, can put some pressure on the capital structure.

Vulnerable to industry risks such as employee attrition and adverse changes in Government policies - The company is also exposed to broader IT industry risks such as high employee attrition and adverse changes in foreign and domestic Government policies. However, the risk is mitigated to some extent by the high geographical diversification of the company.

Liquidity position: Adequate

RSL's liquidity is adequate, with expected cash flow from operations of nearly Rs. 100-140 crore in FY2021 and FY2022, and buffer in the form of unutilised working capital (average utilisation of 44% of limits during the 12-month period ending January 31, 2021), and cash and bank balances of Rs. 16.4 crore as on September 30, 2020. RSL prepaid the term loan of Rs. 10 crore in FY2021 and does not have any term debt repayment obligation in FY2022. RSL also has capex commitment of ~Rs. 45-50 crore per annum for FY2021 and FY2022. In addition, the company has healthy financial flexibility as part of the Ramco Group.

Rating sensitivities

Positive factors – The ratings could witness an improvement if the revenue, profit margin and return on capital employed (RoCE) increase on the back of healthy order flows and change in order mix towards higher share of T&M orders. Moreover, an improvement in the working capital intensity, driven by sustained moderation in unbilled revenues and receivable days, is a credit positive.

Negative factors – The rating could be downgraded, if there is sustained moderation in revenue, profitability or return on capital employed (ROCE) due to a steep decline in order flow, or severe cost escalations or stretch in liquidity profile. A stretch in working capital intensity or higher-than-expected debt funded capital expenditure could also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Ramco Systems Limited. As on March 31, 2020, the company had 14 subsidiaries and one associate, which are all enlisted in Annexure-2.

About the company

RSL was initially set up as a division of Ramco Industries Limited in 1989, before being spun off into an independent entity in 1999. Headquartered in Chennai, RSL is a leading cloud-based technology company with global operations. It provides ERP, HCM and aviation maintenance and engineering (M&E) as well as maintenance repair and overhaul (MRO) software to customers across the globe. It is part of the reputed Ramco Group of companies, a business conglomerate with interests in cement, cotton, synthetic yarn, cement software solutions, clean energy and biotechnology, among others.

In 9MFY2021, on a provisional basis, the company reported a net profit of Rs. 49.2 crore on an operating income of Rs. 476.4 crore (Consolidated) as against a net profit of Rs. 16.4 crore on an operating income of Rs. 436.0 crore in 9MFY2020.

Key financial indicators (audited)

RSL Consolidated	FY2019#	FY2020#	9M FY2021*
Operating Income (Rs. crore)	542.1	568.9	476.4
PAT (Rs. crore)	16.9	10.7	49.3
OPBDIT/OI (%)	17.2%	17.2%	27.8%
PAT/OI (%)	3.1%	1.9%	10.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.14	0.28	
Total Debt/OPBDIT (times)	0.9	1.7	
Interest Coverage (times)	18.2	7.3	17.9

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; # - Audited * - unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					Apr 29, 2021	Mar 23, 2020	Apr 08, 2019	Apr 06, 2018	Jul 11, 2017
	Cash Credit	Long Term	35.00	-	**[ICRA]A (Stable)**	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
	Term loan	Long Term	0.00	0.00	-	[ICRA]A- (Positive)			
	EPC/PCFC/WCDL	Short Term	137.50	-	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
	LC/Bank Guarantees	Short Term	30.50	-	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
	Unallocated	Long Term/ Short term	11.50	-	**[ICRA]A (Stable)/ [ICRA]A2+**	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+		

&= Under watch with developing implications

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 click here

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	Cash Credit	NA	NA	NA	35.00	[ICRA]A(Stable)
NA	EPC/PCFC/WCDL	NA	NA	NA	137.50	[ICRA]A2+
NA	LC/BG	NA	NA	NA	30.50	[ICRA]A2+
NA	Unallocated	NA	NA	NA	11.50	[ICRA]A(Stable)/[ICRA]A2+

Source: *Company *Entire amount prepaid in FY2021*

Annexure-2: List of entities considered for consolidated analysis

Company Name	RSL Ownership	Consolidation Approach
Ramco Systems Corporation, USA	98%	Full Consolidation
Ramco Systems Ltd, Switzerland	100%	Full Consolidation
Ramco Systems Sdn. Bhd, Malaysia	100%	Full Consolidation
Ramco Systems Pte. Ltd., Singapore	100%	Full Consolidation
RSL Enterprise Solutions (Pty) Ltd., South Africa	100%	Full Consolidation
Ramco Systems Canada Inc., Canada	98%	Full Consolidation
Ramco Systems FZ-LLC, Dubai	100%	Full Consolidation
RSL Software Co. Ltd., Sudan	100%	Full Consolidation
Ramco Sytems Australia Pty Ltd., Australia	100%	Full Consolidation
Ramco Systems Inc., Philippines	100%	Full Consolidation
Ramco Systems (Shanghai) Co. Ltd., China	100%	Full Consolidation
Ramco System Vietnam Company Limited, Vietnam	100%	Full Consolidation
PT Ramco Systems Indonesia, Indonesia	100%	Full Consolidation
Ramco Systems Macau Limited, Macau	100%	Full Consolidation
CityWorks (Pty.) Ltd., South Africa	30%	Equity Method

Source: *RSL annual report FY2020*

Note: *ICRA has taken a consolidated view of the parent (RSL), its subsidiaries and associate while assigning the ratings.*

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About ICRA Limited:

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