

September 27, 2021 <sup>(Revised)</sup>

## Iris Business Services Limited: Ratings upgraded to [ICRA]BB(Stable)/[ICRA]A4+; Rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, fund based – Cash Credit	6.00	14.00	[ICRA]BB(Stable), upgraded from [ICRA]BB-(Stable)
Long-term, fund based – Term Loan	6.31	0.00	-
Short-term, non fund based – Bank Guarantee	3.00	5.00	[ICRA]A4+, upgraded from [ICRA]A4
Short-term, non fund based – Forward Contract	2.00	0.75	[ICRA]A4+, upgraded from [ICRA]A4
Long-term, unallocated amount	0.69	0.00	-
<b>Total</b>	<b>18.00</b>	<b>19.75</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings upgrade for Iris Business Services Limited (IBSL) factors in the sustained growth in scale of operations with improved profitability and liquidity, which is likely to sustain, going forward as well. The improvement in liquidity profile was driven by faster collection from customers in the “Create” segment, which drove the company’s operating income in FY2021. Improved profitability and faster cash collection from customers resulted in healthy cash flows, which was largely deployed towards debt reduction. Overall capital structure and coverage indicators remain comfortable, with total-debt/OPBIDTA of 0.6 time and interest cover of 5.8 times during FY2021. In the absence of any major investment plans, the company’s coverage indicators are likely to remain comfortable.

The ratings, however, remain constrained by the modest scale of operations and working capital intensive nature of operations. Furthermore, the company’s margins remain vulnerable to adverse fluctuations in the foreign exchange (forex) on account of considerable revenue contribution from the exports market.

### Key rating drivers and their description

#### Credit strengths

**Proven expertise and credibility of promoters in the IT services sector; well-established relations with reputed customers across various geographies** – The promoters of IBSL have over 15 years of experience in the IT services sector, particularly in the financial structured data solutions and research domain. The presence of diversified customers from different domains safeguard the company’s business against any sector specific risk. It also exhibits considerable geographical diversification with presence in countries such as the USA, the UK, Italy, South Africa and more. Exports contributed 61% to total revenues in FY2021.

**Comfortable capital structure and coverage indicators** – The capital structure remained comfortable with gearing of 0.2 time as on March 31, 2021. The debt coverage indicators remained healthy, as reflected by interest coverage of 5.8 times, NCA/Total

Debt at 135%, and TD/OPBIDTA at 0.6 time as on March 31, 2021 compared to 5.0 times, 61% and 1.4 times, respectively, as on March 31, 2020.

## Credit challenges

**Modest scale of operations** – IBSL’s revenue grew at a CAGR of 11.8% from FY2016 to FY2021, however, the scale of operations remains modest with an operating income of Rs. 56.3 crore in FY2021. The company was able to generate positive cash flow from operations in FY2021 because of healthy profitability and leaner working capital cycle. Owing to stiff competition from much larger peers, the pricing flexibility of IBSL remains limited though the management is targeting value-added services to expand margin. The company’s ability to scale up will remain a key monitorable, going forward.

**Working capital intensive nature of operations** – IBSL exhibits working capital intensive nature of operations, primarily on account of elongated receivables. The average utilisation of fund-based working capital limits, however, remained moderate at 63% for the 12-month period ending July 31, 2021. The receivables position in FY2021 improved due to increase in revenue contribution from the Create segment where credit period allowed is lower than at the Collect segment.

**Vulnerability of margins to fluctuations in foreign exchange** - The company's margins remain vulnerable to any adverse fluctuations in foreign exchange, given the considerable contribution of exports to the revenues of the company. However, the company uses foreign exchange forward contracts to hedge part of its exposure to the movement in forex rates. Such hedging practices provide some cushion to the company's profitability metrics against the said risk.

## Liquidity position: Adequate

IBSL exhibits adequate liquidity position on back of unencumbered cash and liquid investments of ~Rs. 4 crore and buffer from undrawn working capital limits, which stood at ~Rs. 5.7 crore as on July 31, 2021. In the absence of any major term loan repayment obligations as well as investment plans, the liquidity profile is likely to remain comfortable.

## Rating sensitivities

**Positive factors** – The rating could be upgraded if the entity shows improvement in scale of operation, while maintaining comfortable liquidity position and coverage indicators.

**Negative factors** – The rating could be downgraded if the entity exhibits deterioration in profitability or stretched working capital cycle leading to stress on liquidity position of the company.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for entities in the Information Technology (Services) Industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of Iris Business Services Limited

## About the company

Established in 2000, IBSL is engaged in providing products, services and solutions in the financial structured data solutions and research domain. The company operated as a knowledge process outsourcing (KPO) entity earlier, before shifting its business to financial structured data solutions and research in FY2015. It operates through three business segments at present—Collect,

Create and Consume—mainly providing products, services and solutions in the eXtensible Business Reporting Language (XBRL) domain. IBSL provides solutions for compliance, data and analytics and offers Software as a Service (SaaS), Data as a Services (DAAS), and software products.

Headquartered in Navi Mumbai (Maharashtra, India), IBSL's operations are present in Indian as well as overseas markets, such as the UK, the US, Italy and South Africa, among others. The company has regional offices in Singapore, the US and Italy to cater to the regional demands for its products and services.

### Key financial indicators (audited)

IBSL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	51.0	56.3
PAT (Rs. crore)	0.5	2.7
OPBDIT/OI (%)	15.1%	17.5%
PAT/OI (%)	0.9%	4.8%
Total Outside Liabilities/Tangible Net Worth* (times)	1.3	1.1
Total Debt/OPBDIT (times)	1.4	0.6
Interest Coverage (times)	5.0	5.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

\*Tangible Net Worth includes intangible assets of the company being the value of software and database

**Status of non-cooperation with previous CRA:** India Ratings migrates Iris Business Services to Non-Cooperating category (press release dated: September 4, 2020) (rating: IND B / IND A4)

**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 Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					27-Sep-21	1-Oct-20	-	-	
1	Fund based Cash Credit	Long-term	14.00	-	[ICRA]BB(Stable)	[ICRA]BB-(Stable)	-	-	
2	Long-term, fund based – Term Loan	Long-term	0.00	-	-	[ICRA]BB-(Stable)	-	-	
3	Non-fund based Bank Guarantee	Short-Term	5.00	-	[ICRA]A4+	[ICRA]A4	-	-	
4	Non-fund based Forward contract	Short-term	0.75	-	[ICRA]A4+	[ICRA]A4	-	-	
5	Long-term, unallocated amount	Long-term	0.00	-	-	[ICRA]BB-(Stable)	-	-	

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term, fund based – Cash Credit	Simple
Short-term, non-fund based – Bank Guarantee	Simple
Short-term, non-fund based – Forward Contract	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No/ Lender details	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
ICICI Bank	Cash Credit	NA	NA	NA	14.00	[ICRA]BB(Stable)
ICICI Bank	Bank Guarantee	NA	NA	NA	5.00	[ICRA]A4+
ICICI Bank	Forward Contract	NA	NA	NA	0.75	[ICRA]A4+

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	IBSL Ownership	Consolidation Approach
IRIS Business Services, LLC, United States of America	100.00%	Full Consolidation
IRIS Business Services (Asia) Pte. Ltd., Singapore	98.36%	Full Consolidation
Atanou S.r.l., Italy	100.00%	Full Consolidation
IRIS Logix Solutions Private Limited, India	76.00%	Full Consolidation

Source: IBSL annual report FY2021

**Corrigendum**

Details of lenders have been updated in Annexure 1

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