

February 02, 2022

Onward Technologies Limited: Ratings upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term – Fund Based / Non-fund Based Working Capital Facilities	10.00	6.55	[ICRA]BBB (Stable)/[ICRA]A3+; Upgraded from [ICRA]BBB- (Positive)/[ICRA]A3
Total	10.00	6.55	

*Instrument details are provided in Annexure-1

Rationale

The ratings upgrade factors in the continued strong operational performance of Onward Technologies Limited's (OTL or the company), aided by its established relationships with reputed clientele, new business/client wins and presence across various geographical markets. The rating upgrade also favourably considers the strong financial risk profile of the entity, characterised by a comfortable liquidity position (~Rs. 76 crore approximately) and debt-free position as on December 31, 2021. The infusion of funds following the recent round of investment from Convergent Finance LLP (~Rs. 70 crore in the current fiscal) has strengthened OTL's financial risk profile and is likely to bolster its growth prospects, going forward. The company already has an established presence in the US, the UK and Germany, and has recently launched two subsidiaries in the Netherlands and Canada. OTL continues to have plans to enhance its geographical presence, going forward, which is expected to reflect positively in OTL's order book.

The ratings, however, continue to remain constrained by the modest scale of operations and moderate level of profitability exhibited by OTL over the years. ICRA notes that its recent phase of expansion along with enhanced focus on high-margin service offerings are expected to expand its revenue base and profitability metrics to an extent. The company faces intense competition in the engineering research and development (ER&D) space from much larger peers and, therefore, remains exposed to constraints on its pricing flexibility to an extent. The company also remains inherently exposed to currency movement risk with its presence in overseas markets. Any adverse movement in forex could, therefore, affect its profitability, although the presence of a hedging mechanism provides some cushion against extreme volatility in forex movement.

The Stable outlook takes into consideration the established relationships of the company with its customers, which is expected to help it report healthy revenue and earnings growth over the medium term, and maintain a healthy credit profile.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters spanning over three decades in the IT services industry - The promoters of OTL have over three decades of experience in the IT services industry, which has led to the company establishing its presence in the market, especially in the ER&D industry.

Well established relationships with reputed clientele; geographic diversification across domestic as well as overseas markets – OTL has established strong relationships with its reputed clientele over the years. Such business relations ensure repeat orders and also provide revenue visibility to the company. OTL is operational in the domestic market as well as in overseas

markets such as the US, the UK and Germany. It has also started two new subsidiaries in the Netherlands and Canada in the present fiscal. Presence across geographies safeguards the company's revenues against risks pertaining to any specific region.

Comfortable leverage and liquidity position – OTL's consolidated financial profile in FY2021 was characterised by healthy leverage and coverage indicators with healthy unencumbered cash balances, providing cushion to its liquidity profile. The infusion of funds from the stake purchase by Convergent Finance LLP has further strengthened its liquidity position and credit profile in the current fiscal. Inorganic expansion, if any, are largely expected to be funded out of internal accruals, helping maintain the dependence of the company on external borrowings at low levels.

Credit challenges

Modest scale of operations and moderate profitability; exposure to intense competition from larger peers constrains pricing flexibility - OTL is operational in the ER&D field, which is characterised by large-scale players. The company competes with the ER&D divisions of much larger players, who often benefit from economies of scale due to their large scale of operations, thereby exposing OTL to constraints on its pricing flexibility to an extent.

Inherently exposed to currency movement risk in overseas markets; any adverse movement in forex could affect profitability - OTL is inherently exposed to currency movement risk with its overseas operations. Any adverse movement in forex could, therefore, affect its profitability. However, the company has entered into forward contracts to safeguard its forex exposure, which mitigates the aforementioned risk to an extent.

Liquidity position: Strong

OTL's liquidity is expected to remain strong, evidenced by its cash and liquid investments (~Rs. 70 crore as of December 31, 2021) and undrawn working capital facilities, aggregating to approximately Rs. 76 crore as of December 31, 2021. The company has received equity infusion of Rs. 70 crore from Convergent Finance LLP in H1 FY2022, which has strengthened its liquidity profile. The company intends to utilise these proceeds for its expansion plans over the medium term. It does not have any long-term debt on its books as on date.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company exhibits significant improvement in revenue base resulting in an improvement in profitability and return indicators.

Negative factors – The ratings could be downgraded if a sustained deterioration in the scale of operations or operating margin due to any organic/inorganic expansion leads to stress on the liquidity position or credit metrics of the entity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (Services) Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the Onward Group, which includes Onward Technologies Limited, Onward Technologies, Inc., Onward Technologies GmbH, and Onward Properties Private Limited. Further details are provided in Annexure-2.

About the company

Incorporated in 1991, Onward Technologies Limited is engaged in providing engineering design services and IT applications. The company is present in the Indian as well as overseas markets such as the US, the UK and Germany. The Group also launched two new overseas subsidiaries in the Netherlands and Canada in the current fiscal. OTL along with its overseas subsidiaries (Onward Technologies GmbH, Germany and Onward Technologies Inc., USA) focuses on providing engineering and allied services to clients. Onward eServices Limited (OeSL), another subsidiary of OTL, which offered IT and digital services mainly in the domestic market, was merged into OTL in FY2021.

Key financial indicators (audited)

OTL Consolidated	FY2020	FY2021	9m FY2022
Operating Income (Rs. crore)	271.5	240.4	219.8
PAT (Rs. crore)	6.2	7.3	20.5
OPBDIT/OI (%)	8.8%	7.2%	7.7%
PAT/OI (%)	2.3%	3.1%	9.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.8	-
Total Debt/OPBDIT (times)	1.4	1.5	-
Interest Coverage (times)	6.9	7.4	23.8

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

Source: Company, ICRA Research

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 Mar 31, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					February 02, 2022	Aug 23, 2021			Jan 3, 2019	Aug 10, 2018
1	Working Capital Facilities	Long-term / Short-term	6.55	NA	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Positive)/ [ICRA]A3	-	-	-	-
2	Fund-based - Cash Credit	Long-term	-	-	-	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
3	Non-Fund based – Bank Guarantee	Short-term	-	-	-	-	[ICRA]A3	[ICRA]A3	-	-
4	Fund-based / Non-Fund based Limits	Long-term	-	-	-	-	[ICRA]BBB- (Stable)	-	-	-

5	Fund-based – Term Loan	Long-term	-	-		-	-	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
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*An update on details of lender facilities was published on August 5, 2021

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund-based / Non-Fund based Working Capital	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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Working Capital Facilities	NA	NA	NA	6.00	[ICRA]BBB(Stable)/[ICRA]A3+
NA	Working Capital Facilities	NA	NA	NA	0.55	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	OTL Ownership	Consolidation Approach
Onward Technologies, Inc.	100.00%	Full Consolidation
Onward Technologies GmbH	100.00%	Full Consolidation
Onward Properties Private Limited	100.00%	Full Consolidation

Source: OTL annual report FY2021

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

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