May 23, 2023

Trigyn Technologies Ltd.: Ratings downgraded to [ICRA]D/[ICRA]D and simultaneously upgraded to [ICRA]BB- (Stable)/[ICRA]A4; removed from Issuer Not Cooperating category; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term: Unallocated	22.80	75.00	Downgraded to [ICRA]D/[ICRA]D from [ICRA]B+(Stable)/[ICRA]A4 ISSUER NOT COOPERATING and simultaneously upgraded/assigned to [ICRA]BB- (Stable)/[ICRA]A4; removed from ISSUER NOT COOPERATING category
Long-term/ Short-term: Non-fund Based – Bank Guarantee	2.20	-	
Total	**25.00**	**75.00**	

**Instrument details are provided in Annexure-I*

Rationale

The downgrade in the rating notes the irregularity in debt servicing by Trigyn Technologies Ltd. (TTL) in Q3 FY2023 (as conveyed by the lender). The irregularity in debt servicing was towards an unrated loan facility. The rated entity has not been cooperating with ICRA since December 20, 2019, and was not sharing the monthly No Default Statement (NDS).

The rating has been simultaneously upgraded and factors-in the regularisation of debt servicing after January 2023 as well as improvement in the company's credit profile, aided by steady business performance. Also, the rating is removed from the 'Issuer Not Cooperating' category on account of resumption of information sharing by the entity, enabling ICRA to carry out the credit assessment.

The ratings factor in TTL's established business position and extensive experience of its management in the information technology (IT) services/ solutions and staff augmentation business from its US subsidiary, especially for various organisations under United Nations and other Government bodies in the USA. Moreover, TTL's growing presence in domestic IT infrastructure industry especially in the Government sectors as witnessed from healthy revenue growth from domestic business in 9M FY2023 and strong order pipeline providing future revenue visibility. The company's financial profile is adequate, as marked by steady internal accrual generation, sizeable net worth, debt-free status, and comfortable coverage metrics. TTL's liquidity on a consolidated level is adequate; however, most of the surplus funds are housed in the US subsidiary and TTL's standalone liquidity has remained stretched. ICRA noted the delay in debt repayments in the past, despite having adequate liquidity at a consolidated level, shows the inadequate financial controls at the group level. In the absence of any existing fund-based working capital bank lines, timely funding support from the US subsidiary remains key, to meet elevated funding requirements of a growing order book of the domestic business and to manage any cash flow mismatches at the standalone level.

TTL's ratings are also constrained by its moderate scale of operations and profitability compared to other mid-sized IT services players and its exposure to intense competition from other established industry participants in India and other low-cost locations. Additionally, TTL's revenue is concentrated on a few clients including the United Nations and government bodies in the USA exposing it to client concentration risk to an extent. However, TTL's established relationships with its key clients mitigate this risk to an extent. Moreover, in line with other industry participants, TTL remains exposed to challenges pertaining to wage cost inflation, foreign currency fluctuations, talent acquisition and retention. ICRA noted the weak financial profile of United Telecoms Limited (UTL), which is the largest shareholder with 46% stake in TTL. However, there has been no material funding support provided by TTL to UTL in the past.

The Stable outlook on the rating reflects ICRA's opinion that TTL will maintain its credit profile, supported by higher internal accrual generation and continued debt free status.

Key rating drivers and their description

Credit strengths

Established operational track record in the IT services industry – Incorporated in 1986, TTL has an established operational track record of more than 35 years in the IT solutions and IT consultancy industry. In 2006, UTL acquired majority stake in TTL (~44.5% as on March 31, 2023).

Reputed client base – TTL generates about 90% of its revenue from its US subsidiary, and has established strong relationships with its key clientele, which includes international organisations like the United Nations and local and state governments in the US, which enables the company to generate repeat business. Moreover, in the past two years, TTL has developed as a strong systems integrator in the domestic market. This has enabled the company to secure healthy orders from various state government entities.

Healthy order book position in domestic market provides revenue visibility – TTL had a healthy order book of ~Rs. 408 crore as of December 31, 2022, which provides healthy revenue visibility for FY2024. Moreover, TTL faces lower counterparty risk as most orders are from state government bodies/ public sector enterprises in the domestic market.

Comfortable capital structure and coverage metrics – Over the years, TTL's net worth has strengthened to Rs. 655.0 crore (as on September 30, 2022), supported by steady internal accruals. Moreover, with repayment of the outstanding term loan in January 2023, TTL has become debt free. Supported by the same TTL's capital structure and coverage indicators (including lease liability) remain comfortable with TD/TNW 0.01x and TD/OPBITDA of 0.29x as on September 30, 2022. ICRA expects the capital structure and coverage metrics to remain comfortable in the short to medium term, supported by steady internal accruals generation and continued net debt free status.

Credit challenges

Stretched liquidity at standalone level – TTL's liquidity on a consolidated level is adequate (cash and cash equivalent of ~Rs. 267 crore as on September 30, 2022, including encumbered); however, most of the surplus funds are housed in the US subsidiary and TTL's standalone liquidity has remained stretched (cash and cash equivalent of ~Rs. 30.9 crore as on September 30, 2022, including encumbered). At a standalone level, the company had minimal free cash and liquid investments. In the absence of any existing fund-based working capital bank lines, timely funding support from the US subsidiary remains key to meet elevated funding requirements of a growing order book of the domestic business and to manage any cash flow mismatches at the standalone level.

Moderate scale of operations and operating margins compared to mid-sized IT services players – With revenues of Rs. 1,040.6 crore in FY2022, TTL's scale of operations remains moderate relative to the size of industry, thereby restricting its pricing flexibility and margins. The company's operating profit margin (5-6% in last two fiscals) remains moderate compared to mid-sized IT service players owing to healthy share of consolidated revenue being generated from lower value-added staff augmentation business, investment in building capabilities and manpower, and high expected credit loss provision at a standalone level. The company has also made provisions of ~Rs. 31 crore till December 31, 2022 (over the last two fiscals) toward receivable of Rs. 61.5 crore from Andhra Pradesh State Fibernet Limited (APDSL), which has been outstanding for more than three years. ICRA expects steady growth in revenue from both the domestic and US businesses in the medium term, supported by the long-term nature of contracts in the US subsidiary and strong domestic order book. The margins are expected to improve in the medium term owing to the increasing economies of scale, supported by healthy growth in the domestic business.

Exposed to relatively high client concentration risk – TTL's healthy share of revenue is generated from the United Nations (~63% of revenue of US subsidiary), which shows strong dependence of the company's revenue on a single customer. However, it provides services to the United Nations across 25 countries and has a strong track record of 15 years of service to the organisation, reducing the risk to an extent.

Vulnerability to competitive pressure, wage cost inflation and forex risks inherent in the IT services industry – Given the intense competition in the industry, DGSL's profit margins are susceptible to pricing pressures and wage inflation. Further, the company's revenues and margins are exposed to forex risks, although the company has a natural hedge to the tune of revenue and expense in Dollars, which mitigate the risk to an extent. Being in a highly labour-intensive business, the availability and retention of a skilled workforce are the key challenges in line with the trend across the industry.

Liquidity position: Stretched

TTL's liquidity is stretched owing to moderate free cash and bank balance at the standalone entity. As on September 30, 2022, at a standalone level, the company had minimal free cash and liquid investments. ICRA notes the adequate liquidity at a consolidated level with cash and cash equivalent of Rs. 267 crore (including encumbered); although the majority is housed under the US subsidiary. The improvement in TTL's standalone liquidity profile, supported by steady internal accrual generation and timely support from the US subsidiary to support the working capital requirement of the growing domestic order book will remain a key monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade TTL's ratings if the company demonstrates increased revenue diversification and sustained revenue growth along with improvement in operating margins, resulting in strengthening of its credit profile and liquidity position.

Negative factors – Negative pressure on TTL's ratings could arise if there is a considerable decline in revenue and profit margins or stretch in the working capital cycle, exerting pressure on the company's credit metrics. Further, any considerable funding support extended to any group company and/or any sizeable debt-funded inorganic acquisition, resulting in deterioration of liquidity profile, could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Information Technology (Services) Policy on Default Recognition
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TTL. The consolidated entities are all enlisted in Annexure-2.

About the company

TTL was incorporated on March 25, 1986, as a private limited company in Maharashtra, India. It was converted into a public limited company on August 8, 1994. Trigyn Technologies is an innovative, software-led solutions provider and systems integrator providing IT solutions and services to global clients. TTL's offshore software development centre is located in

Mumbai, while it operates in the US through its wholly owned subsidiary, Trigyn Technologies Inc., headquartered in Edison, USA. The company offers a comprehensive range of services including offshore development and maintenance solutions and services, staff augmentation, managed services, and business process outsourcing.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	985.4	1040.6
PAT	62.2	39.1
OPBDIT/OI	9.4%	6.3%
PAT/OI	6.3%	3.8%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	34.2	23.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31,2023(Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2021	Date & rating in FY2020
					May 23, 2023	Apr 28, 2022	Mar 24, 2021	Dec 20, 2019
1	**Unallocated**	Long Term / Short Term	75.00	-	Downgraded to [ICRA]D/[ICRA]D and simultaneously upgraded to [ICRA]BB-(Stable)/[ICRA]A4	[ICRA]B+ (Stable)/ [ICRA]A4; ISSUER NOT COOPERATING	[ICRA]B+ (Stable)/ [ICRA]A4; ISSUER NOT COOPERATING	ICRA]BB+ (Stable) / [ICRA]A4+; ISSUER NOT COOPERATING
2	**Non fund based-Bank Guarantee**	Long Term / Short Term	-	-	-	[ICRA]B+ (Stable)/ [ICRA]A4; ISSUER NOT COOPERATING	[ICRA]B+ (Stable)/ [ICRA]A4; ISSUER NOT COOPERATING	ICRA]BB+ (Stable) / [ICRA]A4+; ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated	Not Applicable

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	-	-	-	75.00	[ICRA]BB- (Stable)/[ICRA]A4

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	TTL Ownership	Consolidation Approach
Trigyn Technology Inc. (TTI)	100%	Full Consolidation
Trigyn Technologies Schweiz GMBH	100%	Full Consolidation
Leading edge Infotech Limited	100%	Full Consolidation
Trigyn Technologies Schweiz GMBH	100%	Full Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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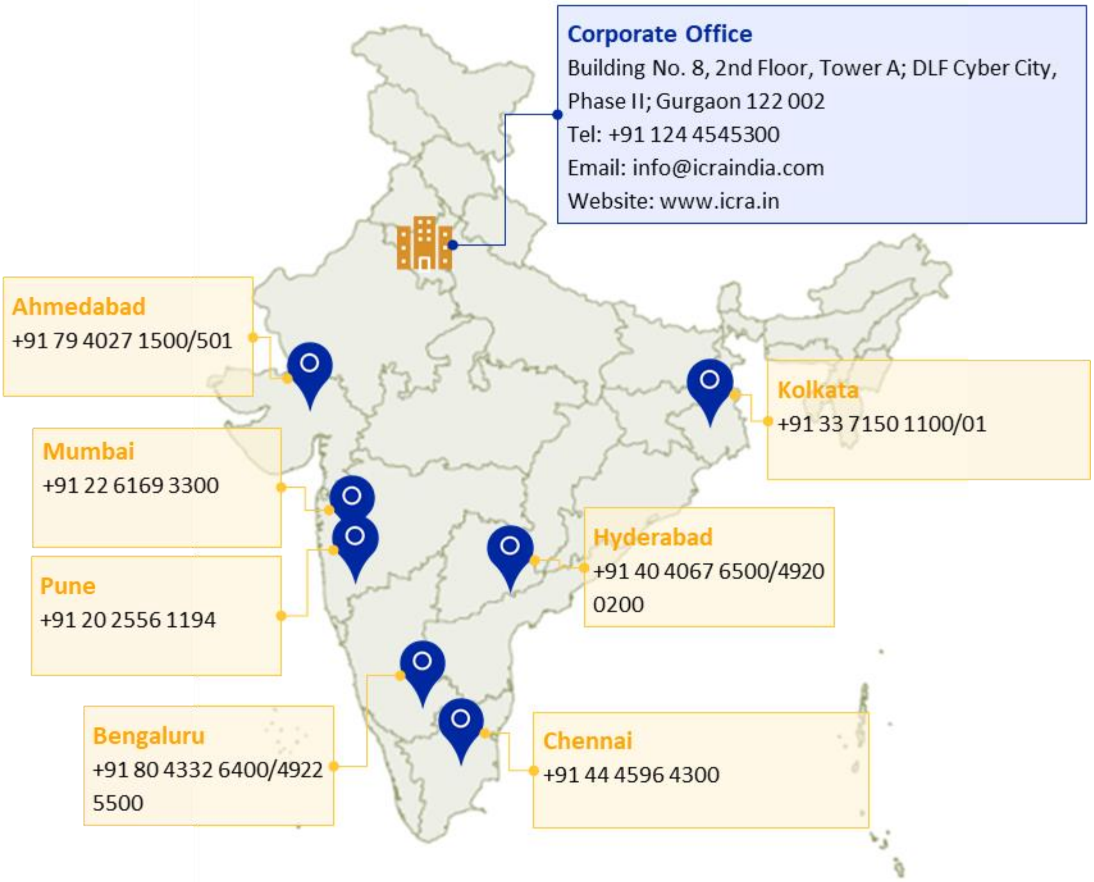

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