

June 26, 2023

Emudhra Limited: Ratings upgraded; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Non-fund based	2.00	-	-
Long-term/short-term – Unallocated	33.00	35.00	[ICRA]A-(Stable)/[ICRA]A2+; Upgraded from [ICRA]BBB+(Positive)/[ICRA]A2; outlook revised to Stable from Positive
Total	35.00	35.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade factors in the strengthening of Emudhra Limited’s (eMudhra) credit profile, marked by strong revenue growth, healthy profit margins, comfortable capital structure, and adequate liquidity position. In FY2023, eMudhra recorded revenue growth of ~36.2%YoY, primarily supported by growth in the enterprise solution segment in the domestic and global markets. In recent years, the company has made investments on product development and expanding the sale of its cybersecurity and paperless transformation products in the global market. This has led to increased revenue diversification with the share of the enterprise solution segment increasing to 66% in FY2023 from 35% in FY2019, supporting eMudhra’s growth and operating margins (OPM). ICRA expects eMudhra to sustain its revenue growth in the near to medium term, supported by a strong order book for the enterprise solution segment, and consolidation of revenue of Ikon tech service LLC (ITS). The company announced acquisition of a 51% stake in ITS, a cybersecurity and digital transformation company, in June 2023, which is expected to strengthen eMudhra’s presence in the US market. Moreover, strong internal accruals in the last two fiscals, coupled with money raised through the initial public offering (IPO) and pre-IPO route, led to improvement in net worth and negligible reliance on debt leading to comfortable capital structure, coverage indicators, and liquidity position.

Additionally, the ratings continue to factor in the extensive experience of the promoter in cybersecurity-related services and as a certifying authority for issuing digital signature certificates in the country. ICRA notes that the company’s reputed customer base, which includes large BFSI players, Government undertaking, coupled with the strong relationships of eMudhra with the large IT services companies in the country to roll out its enterprise solutions products, is expected to support growth in this segment in the near to medium term.

The ratings are, however, constrained by eMudhra’s moderate, albeit growing, scale of operations as reflected in its top line of Rs. 248.6 crore in FY2023. The trust service segment (contributing 34% of its revenue in FY2023) remains susceptible to any changes in the regulatory framework, with respect to applicability of DSC and any changes in the guidelines by the Controller of Certifying Authorities (CCA). The company also remains exposed to technology obsolescence, cyber security and data management risks, given the nature of its business. However, it is working on new product development and diversifying its revenue to mitigate this risk, to an extent. Moreover, eMudhra faces competition from other prominent domestic players in the trust service segment as well as established players from the US and Europe in its enterprise solutions segment, which limits its pricing flexibility to an extent. However, the company’s leadership position in the trust service segment and its ability to provide comprehensive solutions, along with lower cost of delivery compared to its competitors in the US and Europe, provide a competitive advantage, to some extent.

The Stable outlook on the long-term rating reflects ICRA’s opinion that eMudhra will maintain its strong credit profile and adequate liquidity position, supported by healthy internal accrual generation, and continued net debt-free status.

Key rating drivers and their description

Credit strengths

Established position as licensed certifying authority for issuing DSC¹ in India – eMudhra is licensed by the Controller of Certifying Authorities (CCA) to issue DSC in India. It started operations from 2008 and is now a leading player in the digital authentication space, supported by its wide network of controllers or agents across India. The company has a strong track record in the DSC segment with a market share of ~38% in FY2022. It issued ~29 million DSCs in FY2023, 21% higher than the previous fiscal.

Increased diversification of revenues – eMudhra has a diversified revenue stream with a presence in digital trust service, which includes token-based DSC, esign and SSL certificate, and enterprise solutions, which include products/solutions for secure online access (emAS), public key infrastructure (emCA), paperless workflow (emSigner) and certificate life cycle management (eDiscovery). Over the years, the trust service segment generated the majority of revenue for the company. However, in the last three to four fiscals, the enterprise solution reported a faster pace of revenue growth, contributing 66% of total revenue in FY2023 versus 35% in FY2019. Moreover, the company has witnessed strong growth in the enterprise solution outside India, with a revenue contribution of 35% of total revenue and 52% of the enterprise solution revenue in FY2023.

Healthy financial risk profile – eMudhra's financial profile remains healthy, aided by strong revenue growth, improved profitability, increased net worth, and comfortable debt protection metrics. The company's revenue grew by 36% YoY in FY2023, supported by growth in the enterprise solution segment in both the domestic and export markets. Moreover, the company's operating margin remains healthy at 35.1% in FY2023, albeit lower than 37.1% in FY2022, owing to its investments in building a sales team outside India and pricing pressure in the trust service segment. The company's financial profile is also supported by its healthy net worth of Rs. 391.6 crore as on March 31, 2023, and net debt-free status. The debt indicators are expected to remain comfortable, given the strong accrual generation and absence of any debt-funded capex. The company's liquidity remains comfortable, with unencumbered cash and investment of Rs. 118.8 crore as on March 31, 2023.

Credit challenges

Moderate scale of operations – Though eMudhra has shown strong revenue growth in the past few years, the scale of operations remains moderate with total revenue of Rs. 248.8 crore in FY2023. However, ICRA expects steady revenue growth in the near to medium term, supported by its leadership position in the digital trust services business and strong order pipeline in the enterprise solution segment.

Exposed to changes in regulatory framework and technological obsolescence – The company is licensed by the CCA, Ministry of Information Technology, Government of India, and operates under the guidelines set by the Information Technology Act. This exposes its business to any changes in the requirements of CCA. Further, CCA has strict audit requirements, which DSC-certifying authorities are required to follow. The license from CCA has been renewed in 2018 and is valid till November 2023. Given the company's established track record in this business, ICRA expects the company to renew the license on a timely basis. The industry is susceptible to risks related to technological changes, competition from substitutes and shifts in customer demand apart from data management and cybersecurity risks. This necessitates continued investments in technology upgradation. The company's continuous focus towards the enterprise solution segment and investments in product development and further diversifying its revenue, mitigate this risk to an extent.

Competition from other domestic and international players – The company faces competition in the DSC segment from other players like Sify Communications Ltd, Capricorn Identity Services Pvt. Ltd, (n) Code Solutions, Verists etc. The intense

¹ DSC: Digital Sign Certificate

competition results in limited pricing flexibility and bargaining power with the customers for the sale of DSC in the domestic market. Further, in the enterprise solutions business, it faces competition from established players from the US and Europe in the global market. However, its leadership position in the trust service segment, low payroll costs and capability to provide solutions for on-premises as well as cloud-based models, provide a competitive advantage to the company.

Liquidity position: Adequate

eMudhra’s liquidity is **adequate**, supported by a healthy cash flow generation, adequate unencumbered cash and cash equivalents and no long-term debt repayment obligations. As on March 31, 2023, the company had unencumbered cash and cash equivalent of Rs. 118.8 crore, which includes IPO money of Rs 31.9 crore, to be utilised primarily towards working capital requirement (Rs. 5.5 crore), product development (Rs. 10.1 crore) and capex for datacentres (Rs. 15 crore). ICRA notes the cash outflow of ~Rs. 50-52 crore in June- July 2023, towards purchase consideration for acquiring 51% stake in ITS. Despite the outflow, ICRA expects eMudhra’s liquidity to remain adequate, supported by surplus funds available and expected strong internal accrual generation during the current fiscal.

Environment and Social Risks

Environmental considerations: The company has a data centre in Bengaluru and a disaster recovery data centre in Chennai. Energy efficiency and sustainable sourcing of power are critical for data centres, which impact the smooth conduct of business operations. The company has invested in energy-efficient infrastructure and equipment to reduce the energy consumption in its data centres.

Social considerations: eMudhra faces the risk of data breaches and cyberattacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, eMudhra remains exposed to the risk of changes in the regulatory environment in the key markets where it provides its services.

Rating sensitivities

Positive factors – ICRA could upgrade eMudhra’s ratings, if the company demonstrates a strong growth in revenue and earnings, while maintaining its healthy credit metrics and liquidity position, on a sustained basis.

Negative factors – The ratings may be downgraded, if there is any considerable pressure on revenue and internal accrual generation due to reasons including adverse regulatory changes, or if there is any increase in working capital intensity, resulting in weakening of the liquidity position. Specific metrics that could lead to a rating downgrade include Total Debt/OPBITDA higher than 2.3 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Information Technology (Service) Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Emudhra Limited. As of March 31, 2023, eMudhra had eight subsidiaries, which are enlisted in Annexure II.

About the company

Incorporated in 2008, Bengaluru-based Emudhra Limited (eMudhra) is a licensed certifying authority involved in issuing digital signature certificates in India under its brand eMudhra. The company is licensed by the Controller of Certifying Authorities (CCA), Ministry of Information Technology and operates under the guidelines set by the Information Technology Act. Along with issuing digital signatures, it provides various enterprise solutions and services around cyber security like authentication solutions, paperless office solutions, solutions for securing data at rest and in transit. The company also has solutions for Internet of Things (IoT) and around Public Key Infrastructure (PKI).

Key financial indicators (audited)

eMudhra - Consolidated	FY2022	FY2023
Operating income	182.6	248.8
PAT	41.1	61.2
OPBDIT/OI	36.7%	35.1%
PAT/OI	22.5%	24.6%
Total outside liabilities/Tangible net worth (times)	0.7	0.2
Total debt/OPBDIT (times)	1.0	0.3
Interest coverage (times)	14.7	22.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				June 26, 2023	Oct 07, 2022	Aug 26, 2021	Sep 24, 2020
1 Non-fund based	Short-term	-	-	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+
2 Unallocated	Long-term/Short-term	35.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2	-	-
3 Cash Credit	Long-term	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
4 Term Loan	Long-term	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – 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	NA	NA	NA	35.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	eMudhra Ownership	Consolidation Approach
eMudhra (MU) Limited	100%	Full Consolidation
eMudhra Technologies Limited	100%	Full Consolidation
eMudhra Consumer Service Limited	100%	Full Consolidation
eMudhra DMCC	100%	Full Consolidation
eMudhra Pte Ltd	100%	Full Consolidation
eMudhra INC Ltd	100%	Full Consolidation
eMudhra B.V.	100%	Full Consolidation
PT eMudhra Technologies Indonesia	59.35%	Full Consolidation

Source: eMudhra annual report FY2023

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

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About ICRA Limited:

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