PCS Technology Limited

Instrument	Amount In Crore	Amount Outstanding
Fund Based Limits	10.0	[ICRA]BB+(Stable) revised from [ICRA]BBB-(stable)
Non Fund Based Limits	4.0	[ICRA]A4+ revised from [ICRA]A3

Source: ICRA

ICRA has revised the rating on the Rs. 10.00 crore1 long-term bank facilities of PCS Technology Limited (PCS) to [ICRA]BB+ (pronounced ICRA double B plus) from [ICRA]BBB- (pronounced ICRA triple B minus)2. ICRA has also revised the short-term rating on the Rs. 4.0 crore non-fund based bank facilities of PCS to [ICRA]A4+ (pronounced ICRA A four plus) from [ICRA]A3 (pronounced ICRA A three). The outlook on the long term rating remains stable.

The ratings revision factors in the deterioration in business risk profile, with significant decline in scale of operations, as the company gradually exits the infrastructure management services business by next fiscal. According to the management, the size of the infrastructure management business - which includes revenues primarily from maintenance of desk top computers and balance from maintenance of departmental services as well as peripherals like printers, networking equipment, etc. - has been shrinking. This is because most equipment suppliers now provide a standard warranty of three years compared to earlier one year. This has led to shrinking market opportunity for players like PCS Technology. Additionally high competitive intensity has resulted in significant pricing pressure and drop in profitability. The company has thus not been renewing existing contracts where the tenure has ended and also not been taking on fresh contracts.

The company however maintains comfortable liquidity position as reflected in cash equivalents and short-terms investments as on March 31, 2016. Also there has been considerable decline in working capital utilization with decline in revenues. ICRA continues to take note of the financial support from the promoters (the erstwhile Patni Group) in the form of unsecured loans and redeemable preference shares; the promoters in the past had also infused redeemable preference shares at a substantial premium thereby bolstering networth. Though the company undertook a large write-off (Rs. 63.9 crore) under the court approved scheme depleting its net worth considerably, there was no cashflow impact and post the write-off the capital structure remains moderate.

Company Profile

PCS Technology Limited (PCS), started in 1981, was promoted by Mr. Gajendra Patni, Late Mr. Narendra Patni and Mr. Ashok Patni who were also the promoters of Patni Computer Systems (promoter's stake was subsequently sold to iGate in January 2011) which later merged with iGate. PCS was engaged in trading and assembling of computer hardware ranging from high-end servers to networking products and desktops. Over the last 6-7 years, PCS shifted its focus to IT services like facility management, data centre management, healthcare solutions and location based solutions. It is headquartered in Mumbai, has 20 offices across the country and an employee base of 1,235. PCS is listed on the BSE and the NSE with the promoters holding 70.01% of the shares. Mr. Gajendra Patni continues to act as the Chairman of the Board of Directors.

Recent results:

On consolidated basis, PCS reported a profit after tax PAT of Rs.5.7 crore (PY Rs. 2.4 crore) in FY 2016 on an operating income of Rs. 64.1 crore (PY Rs. 100.7 crore). As per standalone Q1, FY 2017 results, the company reported a PAT of Rs.0.9 crore over a turnover of Rs.8.4 crore.

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[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

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