March 03, 2017

Kellton Tech Solutions Limited

Instruments[#]	Amount Rated	Rating Action
Long term: Fund based limits	Rs. 15 crore	[ICRA]A-(Stable) assigned
Long term: Fund based limits	$ 5 million*	[ICRA]A-(Stable) assigned
Long term: Term Loans	$2.35 million*	[ICRA]A-(Stable) assigned
Short term: Non-fund based limits	Rs. 20 crore	[ICRA]A2+ assigned
Unallocated Limits	Rs. 15.15 crore	[ICRA]A-(Stable)/[ICRA]A2+ assigned

#Instrument details are provided in Annexure-1
**Although the bank facilities are denominated in foreign currency, ICRA's rating for the same is on the national scale as distinct from an international rating scale*

Rating Action

ICRA has assigned the long term rating of [ICRA]A-(pronounced ICRA A minus) to Rs. 15 crore[1] fund-based limits, $5 million fund-based limits and $2.35 million term loans, and the short term rating of [ICRA]A2+(pronounced ICRA A two plus) [2] to Rs. 20 crore non-fund based limits of Kellton Tech Solutions Limited("KTSL"/"the company"). The outlook on the long term rating is Stable. ICRA has also assigned the ratings of [ICRA]A-(Stable)/[ICRA]A2+ to Rs. 15.15 crore unallocated limits of KTSL.

Rationale

The assigned ratings take into consideration the healthy revenue growth of KTSL over the last four year period backed by acquisitions which in turn have also helped the company in expanding its service offerings and customer base. The ratings further positively factor in the comfortable financial profile of the company as reflected in its healthy return indicators as well as debt coverage ratios. In addition, the ratings take into consideration, the experience of the promoters in the information technology (IT) industry and presence of a strong management team comprising of technocrats; and the healthy growth prospects for the Digital Transformation service segment which contributes to over 50% of the revenues of KTSL.

The ratings, however, remain constrained by the high geographical concentration risk with over 85% of the company's revenues being derived from USA; and the associated geo-political risks involved with respect to restriction on H1B visas and the costs involved. ICRA, however, notes that the proportion of employees on H1B visas is currently limited to 25% of the workforce of the company (in USA), which is likely to shield the company to a certain extent from any drastic impact arising from policy changes. Further, while the employee utilization levels of the company have remained at over 90% in the last two years, large order book has necessitated relatively high sub-contracting expenses for the company, which has in-turn, impacted its profitability levels to a certain extent. In addition, the ratings remain constrained by the moderate working capital intensity of the company and the exposure of the company's profitability to fluctuations in foreign exchange given that majority of the company's revenue is derived from USA. The ratings further factor in the relatively high competitive intensity, and risks such as employee attrition which are typical to IT industry.

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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

The ability of the company to sustain its revenue growth by generating adequate work orders and maintain healthy profitability levels with a comfortable working capital cycle remain the key rating sensitivities from a credit perspective. Further, given that the company is likely to grow its business through acquisitions (in line with past trends), the impact of such acquisitions on the capital structure of the company as well as its overall business risk profile remains to be seen and will also be a key rating sensitivity factor.

Key rating drivers

Credit Strengths

- Healthy growth in scale of operations over the years backed by regular acquisitions and healthy business volumes
- Healthy return indicators and comfortable debt coverage ratios
- Revenue visibility in the near term aided by healthy order book
- Extensive experience of the promoters in the information technology (IT) industry; strong management team comprising of technocrats

Credit Weakness

- Significant geographical concentration risk as ~85% of the company's revenues are derived from USA; profitability and revenue growth remain exposed to geo-political risks such as restriction on visas and costs associated
- Relatively high competitive intensity witnessed in the industry due to presence of larger and established domestic and international players
- Exposure to foreign currency risk due to significant business from the USA
- Exposed to employee attrition rates, in-line with broader Indian IT industry
- Moderate working capital intensity

Description of key rating drivers highlighted above:

KTSL is an information technology company which provides services to its customers under three major business units namely [a] Digital Transformation, [b] Digital connected enterprise and [c] Enterprise Solutions segments. The Digital Transformation segment contributes to over 50% of the company's revenues and is expected to be the major revenue driver for the company going forward. The company has grown in scale over the years through strategic acquisitions and has consequently expanded its service offerings as well as customer base. Currently, KTSL has an active customer base of over 300 clients with over 85% of the business being derived from USA. The company has been able to generate healthy business volumes over the years owing to repeat business from existing clients as well as acquisition of new client relationships. The order book of the company as on December 2016 remains healthy with a significant proportion of revenue in-flow expected from the higher margin yielding digital transformation segment.

The company employs over 1200 personnel with ~400 employees working out of their USA office. While the company remains exposed to geo-political risks due to preponderance of revenue base from USA, only 25% of the work force in USA is employed via H1B visa route, which could mitigate the impact of policy changes, if any, to a certain extent. Further, the company's profitability also remains exposed to impact of foreign exchange fluctuations due to sizeable revenues from offshore clients.

The ability of the company to sustain its growth trajectory will be contingent on its ability to generate commensurate orders. Further, given that the debt on the books of the company primarily pertains to acquisition finance (in addition to working capital borrowings), impact of future acquisitions, if any on the capital structure of the company remains crucial from a credit perspective.

Analytical approach: The rating action is based on consolidated financials of the company.

Links to applicable Criteria
Corporate Credit Ratings: A Note on Methodology
Rating Methodology for IT Services Industry (Non Hardware)

About the Company:
Incorporated in the year 1993, Kellton Tech Solutions Limited (KTSL) is a global information technology company which provides IT services in the web, mobile, security, ERP and cloud space. The company offers customized Digital Transformation solutions which include three major business units namely Digital Transformation, Digital Connected Enterprise and Enterprise Solutions. It currently has more than 1,200 employees across India, USA and Europe.

Status of non-cooperation with previous CRA: Not Applicable.
Any other information: Not Applicable**.**

Rating History for last three years:
Table: Rating History*

S. No.	Name of Instrument	Current Rating*		
		Type	Rated amount	Month - year & rating
				March 2017
1	Fund Based	Long Term	Rs. 15 crore	[ICRA]A-(Stable)
2	Fund Based	Long Term	$ 5 million	[ICRA]A-(Stable)
3	Term Loans	Long Term	$2.35 million	[ICRA]A-(Stable)
5	Non-fund based	Short Term	Rs. 20 crore	[ICRA]A2+
6	Unallocated Limits	Long Term/Short Term	Rs. 15.15 crore	[ICRA]A-(Stable)/[ICRA]A2+

**The company has not been rated by any other credit rating agency earlier.*

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue	Current Rating and Outlook
Fund based - cash credit	-	-	-	Rs. 15.00 crore	[ICRA]A-(Stable)
Fund based - cash credit	-	-	-	$ 5 million	[ICRA]A-(Stable)
Term Loan	July 2014	-	July 2019	$ 1.46 million	[ICRA]A-(Stable)
Term Loan	June 2016	-	June 2019	$0.89 million	[ICRA]A-(Stable)
Non-fund based	-	-	-	Rs. 20 crore	[ICRA]A2+
Unallocated Limits	-	-	-	Rs. 15.15 crore	[ICRA]A-(Stable)/[ICRA]A2+

Source: KTSL

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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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