

## Kellton Tech Solutions Limited

September 28, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	48.91	24.00	[ICRA]A-; Reaffirmed; Outlook revised from Stable to Negative
Short-Term Non-fund-based Facilities	20.00	20.00	[ICRA]A2+; Reaffirmed
Term Loan	15.94	0.00	
Unallocated Limits	15.15	106.00	[ICRA]A-/[ICRA]A2+; Reaffirmed; Outlook revised from Stable to Negative
<b>Total</b>	<b>100.00</b>	<b>150.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 24.00-crore fund-based facilities and the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 20.00-crore non-fund-based facilities of Kellton Tech Solutions Limited (KTSL). The outlook on the long-term rating has been revised from Stable to Negative. ICRA has also reaffirmed the long-term rating of [ICRA]A- and a short-term rating of [ICRA]A2+ to the Rs. 106.00-crore unallocated limits of KTSL. The outlook on the long-term rating has been revised from Stable to Negative.

### Rationale

The revision in rating outlook factors in the weakening of KTSL's cash flow position owing to relatively high receivable position of the company as also reflected by the high utilisation level of working capital limits in the last twelve-month period. Hence, timely enhancement of working capital facilities remains important for the company's liquidity position in the near term.

The reaffirmation of ratings, however, continues to factor in the strong revenue growth of 27% year-on-year (YoY) reported by the company in FY2018 aided by a healthy order in-flow and strategic acquisitions; and the improved operating profitability of the company in FY2018 given the increased contribution of the digital transformation segment to the overall service-mix (68% of the total revenue). ICRA further takes note of the relatively healthy order book position of the company of Rs. 509 crore (as of June 2018 end) which provides visibility for revenue receipts going forward. In addition, the ratings continue to factor in the company's strong management team comprising of technocrats which has aided the company in establishing itself in key markets such as USA with the ability to secure repeat orders from customers.

The ratings, however, continue to remain constrained by the relatively high receivable position of the company owing to elongated payment cycles from key customers which has resulted in increase in utilisation of sanctioned working capital facilities during the last 12-month period. Furthermore, the working capital intensity was also impacted by accrued revenue owing to the acquisition of PlanetPro in March 2018 during which invoices could not be raised in a timely manner towards the year-end. The ratings further remain constrained by the high geographical concentration risk with ~80% of the revenue being derived from the USA market, and the associated high competitive intensity prevalent in the

industry, especially in USA. In addition, the rating remains tempered by the part-debt funded acquisitions made by the company, which, coupled with working capital borrowings, have kept its debt levels moderately elevated. Furthermore, the company's operations remain susceptible to foreign exchange fluctuation risk given the high proportion of export revenue and risks such as employee attrition which are typical to IT industry.

## Outlook: Negative

ICRA believes timely enhancement and presence of an adequate cushion in the sanctioned working capital facilities will be crucial for KTSL's overall credit profile going forward. The outlook will be revised to Stable in case of timely enhancement of working capital facilities. On the other hand, the outlook will be revised to Positive in case of significant improvement in the overall working capital position of the company, while maintaining a healthy level of utilisation of sanctioned limits.

## Key rating drivers

### Credit strengths

**Experience of the promoters in the IT Industry** – KTSL's promoters have an established presence in the IT Industry which has aided them in identifying lucrative opportunities for acquisitions while also expanding the company's client base.

**Strong unexecuted order book position provides revenue visibility in the near-to-medium term** – As of June 2018, KTSL had an unexecuted order book of Rs. 509 crore which is expected to drive healthy revenue growth for the company going forward.

**Financial risk profile characterised by relatively healthy margins and comfortable debt protection metrics** –KTSL has reported a strong revenue growth over the past five-year period aided by healthy order in-flow especially from the digital transformation segment and strategic acquisitions made by the company which has expanded its sectoral and client coverage. Furthermore, the margin profile of the company has remained healthy and has resulted in healthy cash accruals. Despite the debt-funded acquisitions undertaken by the company, the gearing level has remained  $\leq 1x$  and the debt protection metrics remain comfortable with interest coverage of 7.3 times and NCA/Total Debt of 43% for FY2018.

### Credit challenges

**Relatively high working capital intensity resulting from high debtor and inventory levels** – Elongated payment cycles, especially from large customers have resulted in relatively high working capital intensity for KTSL and has impacted its overall cash flows and consequently, the working capital utilisation levels, given the limited sanctioned working capital lines. Given the healthy growth prospects of the company going forward, presence of adequate working capital funding will be crucial for the company's operations going forward.

**High geographical concentration risk with dependence on USA market** – The company derives about 80% of its revenue from the USA market which is characterised by high competitive intensity as well as risks pertaining to restrictions on workforce deployment as well as level of permissible outsourcing.

**Debt levels to remain contingent on acquisition plans:** Given that the company is likely to grow its business through acquisitions (in line with past trends), part-debt funded acquisitions are likely to keep its debt levels moderately elevated.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Rating Methodology for Entities in the Information Technology \(Services\) Industry](#)

**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 1,500 employees across India, USA, Europe and Asia Pacific regions.

In FY2018, the company reported a net profit of Rs. 68.40 crore on an operating income of Rs. 783.5 crore, as compared to a net profit of Rs. 53.06 crore on an operating income of Rs. 614.77 crore in the previous year.

**Key financial indicators (audited)**

	<b>FY2017</b>	<b>FY2018</b>
Operating Income (Rs. crore)	614.77	783.48
PAT (Rs. crore)	53.06	68.40
OPBDIT/OI (%)	13.33%	15.11%
RoCE (%)	28.32%	28.98%
Total Debt/TNW (times)	0.66	0.44
Total Debt/OPBDIT (times)	1.46	0.96
Interest coverage (times)	7.97	7.27

**Status of non-cooperation with previous CRA: Not applicable****Any other information: None**

### Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Cash Credit	Long Term	24.00	[ICRA]A-(Negative)	-	[ICRA]A-(Stable)	-
2	Non-fund-based facilities	Short Term	20.00	[ICRA]A2+	-	[ICRA]A2+	-
4	Term Loan	Long Term	0.00			[ICRA]A-(Stable)	
5	Unallocated Limits	Long Term/Short Term	106.00	[ICRA]A-(Negative)/[ICRA]A2+		[ICRA]A-(Stable)/[ICRA]A2+	

### 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	-	15.00	[ICRA]A-(Negative)
NA	Adhoc Overdraft	NA	NA	-	9.00	[ICRA]A-(Negative)
NA	Letter of Credit	NA	NA	-	5.00	[ICRA]A2+
NA	Bank Guarantee	NA	NA	-	15.00	[ICRA]A2+
NA	Unallocated Limits	NA	NA	-	106.00	[ICRA]A-(Negative)/ [ICRA]A2+

Source: Kellton Tech Solutions Limited

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