



## Press Release

### Interlace India Pvt Ltd

March 24, 2023

#### Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long-Term Bank Facilities	11.00	IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Short-Term Bank Facilities	18.00	IVR A3 (IVR A three)	Assigned	Simple
<b>Total</b>	<b>29.00 (INR Twenty-nine crore only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the bank facilities of Interlace India Pvt Ltd (IIPL) derives comfort from its long track record of operations under experienced and qualified management, association with reputed clientele resulting in low counter party risk coupled with satisfactory order book position indicating healthy revenue visibility. Further, the ratings also notes its diversified IT service portfolio with state-of-the-art servicing facilities and satisfactory financial risk profile marked by comfortable capital structure and satisfactory debt coverage indicators. Moreover, the ratings also note support from its group company Chennai Radha Engineering Works Private Limited (CREWPL). These rating strengths are partially offset by its modest scale of operations, presence in highly competitive industry coupled with business risk associated with tender-based orders, working capital-intensive nature of its operation with high receivables and cyclicity in the IT industry coupled with technology obsolesce risk and country risk.

#### Key Rating Sensitivities:

##### Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals.
- Sustenance of the capital structure with improvement in debt protection metrics

##### Downward Factors

- Dip in operating income and/ or moderation in profitability impacting the debt coverage indicators



## Press Release

- Moderation in overall gearing to more than 1.5x and/or moderation in debt protection metrics
- Elongation in receivable period and/or increase in working capital intensity impacting the liquidity
- Withdrawal of support extended by CREWPL

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

- **Long and successful track record under experienced and qualified promoters and management team**

The company started its business operation from 2007 in Chennai (Tamil Nadu), thus, enjoying over 15 years of successful operational track record. During this long tenure, the company gradually diversified its service portfolio in IT field and expanded to other states and countries for rendering IT service. The promoters have vast experience in information technology domain. Mr. Sambandam Venkatesan, is the founder director of the company and a technocrat, having experience over fifteen years in the IT industry. The other directors are also highly qualified and having vast experience in IT and business operation. This apart, there is a group of experienced and adequately qualified personnel in various position of the company.

- **Support from group company Chennai Radha Engineering Works Private Limited**

An unconditional and irrevocable corporate guarantee has been provided by the group company Chennai Radha Engineering Works Private Limited (CREWPL) to the bank facilities of IIPL which imparts comfort. CREWPL also holds ~14% shares of IIPL and has a healthy financial risk profile.

- **Reputed clientele resulting in low counter party risk coupled with satisfactory order book position indicating healthy revenue visibility**

Since inception, the company is engaged in providing Information Technology related services to various State Government, Central Government agencies and private organisations throughout the country. The company is empanelled service provider of National Information Centre, RITES (rated: IVR A1+), APGENCO, NSIC, IOCL, DUPONT, etc. This apart, the company also provides IT services to various big domestic private players engaged in banking,



## Press Release

manufacturing and trading segments. The company maintains long term relationship with the clients and gets repeat orders regularly. At Present, the company has an order book amounting to Rs.140 Crore showing revenue visibility in the near term.

- **Diversified IT service portfolio with state-of-the-art servicing facilities**

The company provides services like, communication & networking, system integration, software development, web designing & multimedia, e-commerce, SEO, mobile application development etc. The primary customer of the company is Government agencies and has a well-established marketing channel in domestic as well as international market. The company has head quarter at Chennai and has other branches in Delhi, Bangalore, Aizawl and Bhubaneswar. The company maintains international standard for providing services and accredited with CMMi5, ISO 9001:2008, ISO 27001 and ISO 20000 certifications for quality of service.

- **Satisfactory financial risk profile marked by comfortable capital structure and satisfactory debt coverage indicators.**

Financial risk profile of the company remained satisfactory marked by its comfortable capital structure as on the past three account closing dates with nil long-term debt in the capital structure and satisfactory debt coverage indicators. Moreover, the overall gearing ratio and total indebtedness marked by TOL/TNW also remained comfortable at 0.14x and 0.42x respectively as on March 31, 2022 as compared to 0.04x and 0.22x as on March 31, 2021. The debt protection parameters of the company also remained comfortable marked by interest coverage ratio at 8.24x in FY22 and Total Debt/GCA at 1.67x as on March 31, 2022.

### **Key Rating Weaknesses:**

- **Small scale of operation**

The size of a player's operation in the IT services industry directly impact economies of scale benefits and its ability to sustain headwinds in terms of pricing pressure, attrition and loss of key clients. IIPL is relatively a small player in IT service business with a total operating income of ~Rs.35 crore in FY22 and ~Rs.76 crore in 9MFY23. However, being in service sector the company has satisfactory profit margin over the past three fiscals.

- **Highly competitive industry coupled with business risk associated with tender-based orders**



## Press Release

IT/ITES industry is very competitive and mostly organised in India. IIPL faces direct competition from many organised and established players in the domestic market. There are various players catering to the same market which leads to limit the bargaining power of the company and consequent pressure on its margins. Though the company is empanelled for various Government agencies for IT needs, but the orders are majorly awarded through the tender-based system. The growth of the business depends on its ability to successfully bid for the tenders and appear as the lowest bidder. Any changes in the government policy and spending on projects are likely to affect the revenues of the company.

- **Working capital intensive nature of operations and high receivables**

The operation of the company is working capital intensive. The company raises bills after the completion of work contract. The company's client base is majorly government entities, where in the payments is elongated owing to procedural delays. The average collection period stood elongated at 253 days for FY22 whereas the procurement remains majority contract backed. Therefore, the company maintain minimal inventory.

- **Cyclical in the IT industry coupled with technology obsolesce risk and country risk**

IT industry is cyclical in nature which leads to fluctuation in demand. This apart the industry is highly technology oriented which keeps changing time to time. Thus, the company has to keep upgrading its work procedure according to the needs of the clients.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Service Sector Companies](#)

[Parent group support](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

**Liquidity: Adequate**

The liquidity position of the company is expected to remain comfortable marked by its expected adequate gross cash accruals against its nil debt repayment obligations during FY23-FY25. The company has earned a gross cash accrual of Rs.5.64 crore in 9MFY23.



## Press Release

Further, the average working capital utilisation of the company in the past 12 months ended in February 2023 remained satisfactory at ~40% indicating an adequate liquidity buffer. Moreover, driven by its comfortable gearing ratio the company has adequate gearing headroom.

### **About the Company**

Incorporated in February 2007, Interlace India Pvt Ltd (IIPL) was promoted by Chennai (Tamil Nadu) based technocrat Mr. Sambandam Venkatesan. Since inception, the company is engaged in providing Information Technology related services to various State Government, Central Government agencies and private organisations throughout the country. The company provides services like, communication & networking, system integration, software development, web designing & multimedia, e-commerce, SEO, mobile application development etc. The company maintains international standard for providing services and accredited with CMMIDEV5, ISO 9001:2015, ISO 20000-1:2018 certifications. IIPL is a group company of Chennai Radha Engineering Works Pvt Ltd.

### **Financials of Interlace India Pvt Ltd (Standalone):**

For the year ended* / As On	(Rs. crore)	
	31-03-2021	31-03-2022
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	30.04	34.94
EBITDA	4.11	4.12
PAT	2.07	2.16
Total Debt	1.31	5.36
Tangible Net worth	36.88	38.99
EBITDA Margin (%)	13.68	11.79
PAT Margin (%)	6.81	6.12
Overall Gearing Ratio (x)	0.04	0.14
Interest Coverage Ratio (x)	6.97	8.24

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

**Rating History for last three years:**

(Rs. Crore)





## Press Release

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	11.00	IVR BBB-; Stable	-	-	-
2.	Bank Guarantee	Short Term	18.00	IVR A3	-	-	-

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### About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit [www.infomerics.com](http://www.infomerics.com)

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## Press Release

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	11.00	IVR BBB-; Stable
Short Term Non Fund Based Limits – Bank Guarantee	-	-	-	18.00	IVR A3

### Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Interlace-mar23.pdf>

**Annexure 3: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).