

Press Release

ACN Infotech (India) Private Limited

September 28, 2018

Rating

| Sl. No. | Instrument/Facility | Amount (Rs. Crores) | Rating Assigned | Rating Action |
|----------------|---|----------------------------|------------------------|----------------------|
| 1. | Short Term Non-Fund Based Limits (Foreign Bank Guarantee) | 52.00 | IVR A3 (IVR A Three) | Assigned |
| | Total | 52.00 | | |

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid ratings derive comfort from its experienced and qualified promoters and management, good credit profile of the company, large scale of operation of the subsidiaries, good profitability margins and comfortable debt coverage of the subsidiaries and diversified services portfolio of the group. The ratings are however constrained by small scale of operation and moderate profitability margins of the holding company, high amount of contingent liabilities, substantial investment in subsidiaries, geographic and customer concentration of revenues and high amount of expenditure on research and development/WIP. Scale of operation and profitability and working capital management are the key rating sensitivities.

List of Key Rating Drivers

- Experienced and qualified promoters & management
- Good Credit profile of the company
- Large scale of operations, good profitability margins and comfortable debt coverage indicators of the subsidiaries
- Diversified services portfolio
- Small scale of operation and moderate profitability margins of the holding company
- Moderate profitability
- High amount of contingent liabilities
- Substantial investment in subsidiaries
- Geographic and customer concentration of revenues

- High amount of expenditure on research and development/WIP

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced and qualified promoters & management

Chaman Baid is the founder of ACN Infotech (India) and serves as its managing director and CEO since the inception of the company in 2001. He has over 22 years of experience, he is responsible for the operations of ACN Infotech (India) as well as for the company's global business interests. Mr. NandanSetlur is the executive director and is responsible for all activities of the group in US. He has over 25 years of industry experience. AmanBaid manages the operations of ACN in the Asia-Pacific region. He has over 20 years of industry experience.

Credit profile of the company

The company has a good credit profile with comfortable capital structure and debt coverage indicators. During FY16, the promoters infused capital of Rs.2.02 crore into the company. The overall gearing of the company was comfortable at 0.05x as on March 31, 2018.

Large scale of operations, good profitability margins and comfortable debt coverage indicators of the subsidiaries

The gross revenue of ACN Technologies Inc. increased from ~87 crore in year ending on December 31, 2016 to ~117 crore in the year ending on December 31, 2017 (provisional). PAT also increased in the above period. Revenue of COSA BV also increased from ~30 crore in the year ending on December 31, 2016 to ~33.5 crore in the year ending on December 31, 2017 (provisional). PAT also increased marginally during the above period. As there is no long term debt taken by both these subsidiaries, the debt coverage indicators are comfortable. However, the financials of both these subsidiaries are unaudited as they are not required to be audited (owing to their size) under the local regulations.

Diversified Services portfolio

The group has diversified its service portfolio from IT services to Business Process Management solutions, Document Management and Revenue Cycle Management.

Key Rating Weaknesses:

Small scale of Operations and moderate profitability margins of the holding company

The total revenue of ACN Infotech (India) has marginally increased in FY18. In spite of being in business for over 15 years, the scale of operations of the company continues to be small. The EBITDA and PAT margin of the company are comfortable. However, Return on Capital Employed and Return on Networth are low at 7.35% and 3.07% respectively.

High amount of contingent liabilities

The company has given foreign bank guarantee (Rs.51.14 crore) for two of its wholly owned subsidiaries, to enable these subsidiaries to avail Overdraft facilities from foreign branch of the bank. However, considering the profitability and scale of operations of the wholly owned subsidiaries who have availed the loan the probability of crystallization of the contingent liability appears to be low.

Substantial investment in subsidiaries

The company has made substantial investment in various subsidiaries (ACN Technologies Inc. and COSA BV). The investment in subsidiaries was high at around 49% of networth as on March 31, 2018.

Geographic and customer concentration of revenues

ACN Infotech derives most of its revenue from customers based in US, which makes its revenue growth dependent on outsourcing policies of the country (USA). 39% of the revenue of ACN Technologies Inc. is from the top 5 clients indicating high concentration. However, COSA BV has a diversified revenue profile (top 5 customers accounting for only 8% of revenue).

High amount of expenditure on research and development/WIP

COSA BV, one of the wholly owned subsidiaries of the company, has high amount of assets in work-in-process, which is 54.17% of the tangible net worth of COSA BV. The company is in to BPM workflow solutions and there are certain software that are being developed and tested for clients, resulting in higher WIP. The companies invest heavily in research and development (or R&D), which leads to differentiated offerings.

Analytical Approach & Applicable Criteria

Rating Methodology for Service companies

Financial Ratios & Interpretation (Non-Financial Sector)

About the Company

ACN Infotech (India) Private Limited is a worldwide provider of content management (for US entertainment industry) and business process management solutions / services to small, medium, and large enterprises. It started its business in Visakhapatnam in the year 2001. ChamanBaid is the founder of ACN Infotech (India) and serves as its managing director and CEO since the inception of the company. Over the years the company has grown through inorganic means by acquiring target firms mainly in USA and Europe.

Financials (Standalone)

(Rs. crore)

| For the year ended/ As On | 31-03-2017 (Audited) | 31-03-2018 (Prov) |
|---------------------------|-------------------------|----------------------|
| Total Operating Income | 5.33 | 6.17 |
| EBITDA | 2.21 | 2.60 |
| PAT | 0.56 | 0.74 |
| Total Debt | 1.25 | 1.13 |
| Tangible Networkth | 23.64 | 24.36 |
| <u>Ratios</u> | | |
| EBITDA Margin (%) | 41.46 | 42.22 |
| PAT Margin (%) | 10.51 | 11.93 |
| Overall Gearing Ratio (x) | 0.05 | 0.05 |

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork Ratings which has earlier rated the company, has classified it as “Issuer Not Cooperating” category due to non-submission of information as per Press Release dated June 28, 2018.

Any other information: N.A

Rating History for last three years:

| Sl. No. | Name of Instrument/Facilities | Current Rating (Year 2018-19) | | | Rating History for the past 3 years | | |
|---------|-------------------------------|-------------------------------|---------------------------------|--------|---|---|---|
| | | Type | Amount outstanding (Rs. Crores) | Rating | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 | Date(s) & Rating(s) assigned in 2015-16 |
| 1. | Non-Fund Based Facilities | Short Term | 52.00 | IVR A3 | -- | -- | -- |

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crores) | Rating Assigned/ Outlook |
|--|------------------|------------------|---------------|-------------------------------|--------------------------|
| Short Term Non Fund Facilities- Foreign Bank Guarantee | - | - | - | 52.00 | IVR A3 |