

March 27, 2023

Onward Technologies Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term – Fund Based / Non-Fund Based (Working Capital Facilities)	6.55	6.55	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Total	6.55	6.55	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation factors in the established operations of Onward Technologies Limited (OTL or the company), aided by its long-standing relationships with reputed clientele, new business/client wins and presence across various geographical markets. The rating also factors in the healthy financial risk profile of the entity, characterised by a comfortable liquidity position and debt-free position. The infusion of funds following the round of investment from Convergent Finance LLP (Rs. 70 crore in the previous fiscal) strengthened OTL's financial risk profile and is likely to bolster its growth prospects, going forward. The company already has an established presence in the US, the UK and Germany, and two subsidiaries in the Netherlands and Canada, and continues to have plans to enhance its geographical presence further, which is expected to reflect positively in OTL's order book and provide diversification to its revenue streams.

The ratings, however, continue to remain constrained by the modest scale of operations and moderate level of profitability exhibited by OTL over the years. ICRA notes that its recent phase of expansion, which are yet to yield commensurate returns, has resulted in some margin erosion over recent quarters; however, margin recovery is expected going forward as these employees are deployed, along with OTL's enhanced focus on high-margin service offerings. Nevertheless, the company faces intense competition in the engineering research and development (ER&D) space from much larger peers and, therefore, faces constraints on its pricing flexibility to an extent. The company also remains inherently exposed to currency movement risk due to its presence in overseas markets. Any adverse movement in forex could, therefore, affect its profitability, although the presence of a hedging mechanism provides some cushion against extreme volatility in forex movement.

The Stable outlook on the long-term rating reflects ICRA's expectation that OTL would report healthy revenue and earnings growth over the medium term and maintain a healthy credit profile.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters spanning over three decades in the IT services industry - The promoters of OTL have over three decades of experience in the IT services industry, which has supported the company establish its presence in the market, especially in the ER&D industry.

Well established relations with reputed clientele; Geographic diversification with presence in the domestic market as well as overseas markets – OTL has well established relationships with its reputed clientele over the years, which ensures repeat orders and provides revenue visibility to the company. Furthermore, its presence across various geographies, including the domestic market, USA, UK, Germany, Netherlands and Canada, provides diversification to revenue streams, and mitigates its revenues against risks pertaining to any specific region.

Comfortable credit metrics and comfortable liquidity position – OTL’s financial risk profile remains comfortable, characterised by healthy leverage and coverage indicators with comfortable unencumbered cash balances, providing cushion to its liquidity profile. The infusion of funds by Convergent Finance LLP in the previous fiscal further strengthened its liquidity position and credit profile, and expected to remain so over the near to medium term as well.

Credit challenges

Modest scale of operations and moderate profitability; exposure to intense competition from larger peers constrain pricing flexibility - OTL is operational in the ER&D field, which is characterised by presence of large-scale players. The company competes with the ER&D divisions of such players, which often benefit from economies of scale due to their large scale of operations, thereby exposing OTL to constraints on its pricing flexibility to some extent. During the current fiscal, there has been further pressure on profitability on account of investments incurred for growth, which are yet to yield commensurate returns; however, this is expected to correct going forward.

Inherently exposed to currency movement risk with presence in overseas markets; any adverse movement in forex could affect profitability - OTL is inherently exposed to currency movement risk with its overseas operations. Any adverse movement in forex could, therefore, affect the profitability of the company. However, the company has entered into forward contracts to safeguard its forex exposure, which provides some comfort against the said risk.

Environmental and social risks

Environmental considerations: Given the service-oriented nature of business, OTL’s direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

Social considerations: Like other IT service companies, OTL faces the risk of data breaches and cyber-attacks that could affect the large volumes of customer data that it manages. Any material lapses on this front could result in substantive liabilities, fines, or penalties and reputational impact. Also, OTL remains exposed to the risk of changes in immigration laws in the key developed markets where it provides its services. While such changes would be motivated by those economies' own social and political considerations, they could have the effect of heightening the competition among IT players for skilled workforce leading to higher attrition rates and may have an adverse impact on profitability. Managing various facets of human capital, including skills, compensation, and training, is a key differentiating factor among IT companies.

Liquidity position: Adequate

OTL’s liquidity is expected to remain adequate, with cash flow generation of Rs. 15-20 crore from operations, and free cash and liquid investments (Rs. 34.8 crore as of December 31, 2022) as well as undrawn working capital facilities (Rs. 5.6 crore as on December 31, 2022). It does not have any long-term debt on its books as on date, and capex requirements over the medium term remain modest at Rs. 5-10 crore annually.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company exhibits significant improvement in revenue base resulting in an improvement in profitability and return indicators on a sustained basis.

Negative factors – The ratings could be downgraded if a sustained deterioration in the scale of operations or operating margin due to any organic/inorganic expansion leads to stress on the liquidity position or credit metrics of the entity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology – Information Technology (Services)
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of Onward Technologies Limited, details of which are provided in Annexure-2.

About the company

Incorporated in the year 1991, Onward Technologies Limited (OTL) is a software outsourcing company engaged in the fields of digital and ER&D services catering to the Transportation, Mobility, Industrial Products, Heavy Machinery and Healthcare sectors. The company has its presence in the Indian market as well as overseas markets such as the US, the UK and Germany. Headquartered in Mumbai, the company has 14 offices across 6 countries with offshore capability centres in India.

Key financial indicators (audited)

OTL Consolidated	FY2021	FY2022	9M FY2023
Operating income	243.5	311.8	319.6
PAT	7.3	23.7	4.2
OPBDIT/OI	8.4%	8.4%	4.1%
PAT/OI	3.0%	7.6%	1.3%
Total outside liabilities/Tangible net worth (times)	0.8	0.4	NA
Total debt/OPBDIT (times)	1.2	0.7	NA
Interest coverage (times)	8.8	26.1	10.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022			Date & rating in FY2021	Date & rating in FY2020
				Mar 27, 2023	Feb 02, 2022	Aug 23, 2021	Sep 3, 2020 Nov 3, 2020	Jan 16, 2020	
1 Working Capital Facilities	Long-term / Short-term	6.55	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Positive)/ [ICRA]A3	-	-	
2 Fund-based – Cash credit	Long-term	-	-	-	-	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	
3 Non-Fund based – Bank Guarantee	Short-term	-	-	-	-	-	[ICRA]A3	[ICRA]A3	
4 Fund-based / Non-Fund based Limits	Long-term	-	-	-	-	-	[ICRA]BBB-(Stable)	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund Based / Non-Fund Based Working Capital	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
HSBC Bank	Working Capital Facilities	NA	NA	NA	6.00	[ICRA]BBB(Stable)/ [ICRA]A3+
ICICI Bank	Working Capital Facilities	NA	NA	NA	0.55	[ICRA]BBB(Stable)/ [ICRA]A3+

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	OTL Ownership	Consolidation Approach
Onward Technologies, Inc.	100.00%	Full Consolidation
Onward Technologies GmbH	100.00%	Full Consolidation
Onward Technologies Canada Inc.	100.00%	Full Consolidation
Onward Technologies BV	100.00%	Full Consolidation
OT Park Private Limited	100.00%	Full Consolidation

Source: OTL annual report FY2022

Note: ICRA has taken a consolidated view of the parent (OTL) and its subsidiaries while assigning the ratings

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