

## Onward eServices Limited

January 3, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	1.0	1.0	[ICRA]BBB-(Stable); Upgraded from [ICRA]BB+(Stable)
Fund-based - Working Capital Facilities	6.0	6.0	[ICRA]BBB-(Stable); Upgraded from [ICRA]BB+(Stable)
<b>Total</b>	<b>7.0</b>	<b>7.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating upgrade favourably takes into consideration the improvement in profitability of Onward Group in H1FY2019 on back of the group's strategic move of focusing more on remunerative projects and discontinuing the less remunerative ones, thereby recording notable jump in margins in H1FY2019, compared to full year FY2018. The group had recorded suppressed profitability in H2FY2018 due to few such projects; however, with the timely discontinuation of the same, and engaging resources in other profitable ones, the cashflow was improved in subsequent quarters; Q1FY2019 and Q2FY2019 which further reflected positively in improvement in profitability in H1FY2019. The rating continues to favourably take into consideration the long-standing experience of promoters in the IT services industry and their well-established relations with key customers resulting in repeat orders. With the emergence of Indian IT sector over the past decade, the demand for IT applications has grown significantly; leading to increasing demand for staffing services. OESL is expected to grow considerably from such positive growth scenario for IT and staffing services.

The rating is however constrained by modest scale of operations of OESL in the IT services industry which is characterized by presence of large scale established players. The company also faces moderate client concentration risk with its top five clients contributing to ~73% revenue in FY2018. High level of outstanding receivables in the domestic market also remains a concern for the company.

### Outlook: Stable

ICRA believes OESL will continue to benefit from the extensive experience of its promoters in the IT and staffing industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthen the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

### Key rating drivers

#### Credit strengths

**Long-standing experience of promoters in the IT services industry** – The promoters of the Onward Group have over three decades of experience in the IT services industry which has led to the company establishing its presence in the market, especially in the IT applications industry. Onward Technologies Limited (OTL) is engaged in the fields of engineering design services and IT outsourcing while its subsidiaries (Onward Technologies GmbH, Germany and Onward Technologies Inc., USA) focuses on providing engineering services overseas while Onward eServices Limited offers IT and staffing solutions and majorly operates in the domestic market.

**Well established relations with reputed clientele leading to repeat ordering and revenue visibility** – OESL’s customer profile is well diversified with has presence across industries Pan India. On a group level it has wide presence in the Indian as well as European and American markets. OESL has developed well established relations with reputed clientele over the years. Such established business relations and successful project execution lead to repeat orders and also provide revenue visibility to the company.

**Improvement in profitability in H1FY2019 on back of discontinuation of projects** – The operating profit of Onward Group improved from 4.6% (FY2018) to 8.3% (H1FY2019) while the net profit improved from 2.7% (FY2018) to 3.0% (H1FY2019). The group recorded suppressed profitability in Q3FY2018 and Q4FY2018 as the company was involved in certain projects which were straining its cash flows. The company undertook a strategic decision of discontinuing these projects and writing them off in order to utilize the resources in other remunerative ones. As a result, the group showed improvement in profitability in Q1FY2019 and Q2FY2019, which further reflected positively in improved profitability of Onward Group in H1FY2019 as compared to FY2018.

**Considerable growth driven by positive demand prospects** – OESL has shown growth at a CAGR of ~15% in its top line over last three fiscals on account of positive demand prospects for IT services offered by the company. Moreover, as the industry is growing, the demand for staffing services has also grown significantly in the domestic as well as the overseas markets.

## Credit challenges

**Moderate scale of operations** – OESL is operational in the IT services field which is characterized by presence of large scale players. The company competes with the IT services divisions of such large-scale players which often get benefitted from economies of scale due to their scale of operations.

**Exposed to moderate client concentration risk** – OESL stands exposed to client concentration risk with its top five clients contributing ~73% revenue in FY2018. However, company's well-established relations with its key clients provide some comfort against the said risk. Amid competition, the ability of the company to source projects from existing as well as prospective clients which generates adequate returns will be critical from the profitability as well as cash flow perspective.

**Moderate coverage indicators with net accumulated losses** – The capital structure of OESL (standalone) remained comfortable with a gearing of 0.5x in FY2018. With an interest coverage of 2.6x and TD/OPBDITA of 1.4x, the coverage indicators of OESL (standalone) remain moderate. The company has net accumulated losses on its standalone books although increasing scale of operations coupled with improved profitability are expected to provide comfort going forward.

**High level of outstanding receivables for the domestic market** - OESL has high level of outstanding receivables for the domestic market which exerts pressure on its working capital intensity and increases its dependence on external borrowings to meet its working capital requirements. Nonetheless, the total outside liabilities and working capital intensity is moderate at ~17% in FY2018.

## Liquidity Position:

OESL continues to exhibit adequate liquidity position on back of continual increase in accruals over the years and minimal long-term debt. The working capital utilization of OESL has remained at around ~70% over the last 12 months providing requisite cushion. The company had cash and cash equivalents of Rs. 2.6 crore as on March 31, 2018 and reported positive retained cash flows over the period under study.

## Analytical Approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Information Technology (Services) Industry</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on the consolidated financial statements of Onward Group which includes Onward Technologies Limited and Onward eServices Limited.

## About the company:

Incorporated in year 2003, Onward eServices Limited (OESL) is operational in the fields of IT applications and staffing. It is a part of the Onward Group headed by flagship company Onward Technologies Limited (OTL) which is primarily engaged in the fields of engineering design services and IT outsourcing. OESL primarily caters to the domestic market while OTL has presence in both domestic as well as overseas markets such as US, UK and Germany.

## Key financial indicators (Consolidated, Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	223.6	244.5
PAT (Rs. crore)	4.1	6.7
OPBDIT/OI (%)	5.0%	4.6%
RoCE (%)	14.7%	15.0%
Total Debt/TNW (times)	0.6	0.5
Total Debt/OPBDIT (times)	2.3	2.0
Interest coverage (times)	4.0	3.7

## 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 as on Sep-18 (Rs. crore)	Date & Rating January 2019	Date & Rating August 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
1	Term Loan	Long Term	1.00	1.00	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-	-	-
2	Cash Credit	Long Term	6.00	-	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-	-	-

### 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	Term Loan	June 2016	11.0%	March 2020	1.00	[ICRA]BBB-(Stable)
NA	Cash Credit	NA	NA	NA	6.00	[ICRA]BBB-(Stable)

Source: Onward eServices Limited

## Annexure-2: List of entities considered for consolidated analysis

*Not Applicable*

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## Corrigendum

Rating rationale dated January 3, 2019 has been corrected with revisions as detailed below:

Analytical Approach section on Page 3 – The field “Parent/Group Support” in the Analytical Approach table has been reworded as “Not Applicable”.

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